CREDIT and FINANCIAL MANAGEMENT

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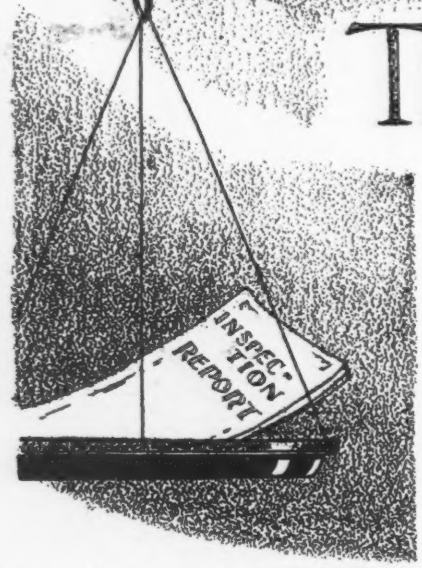

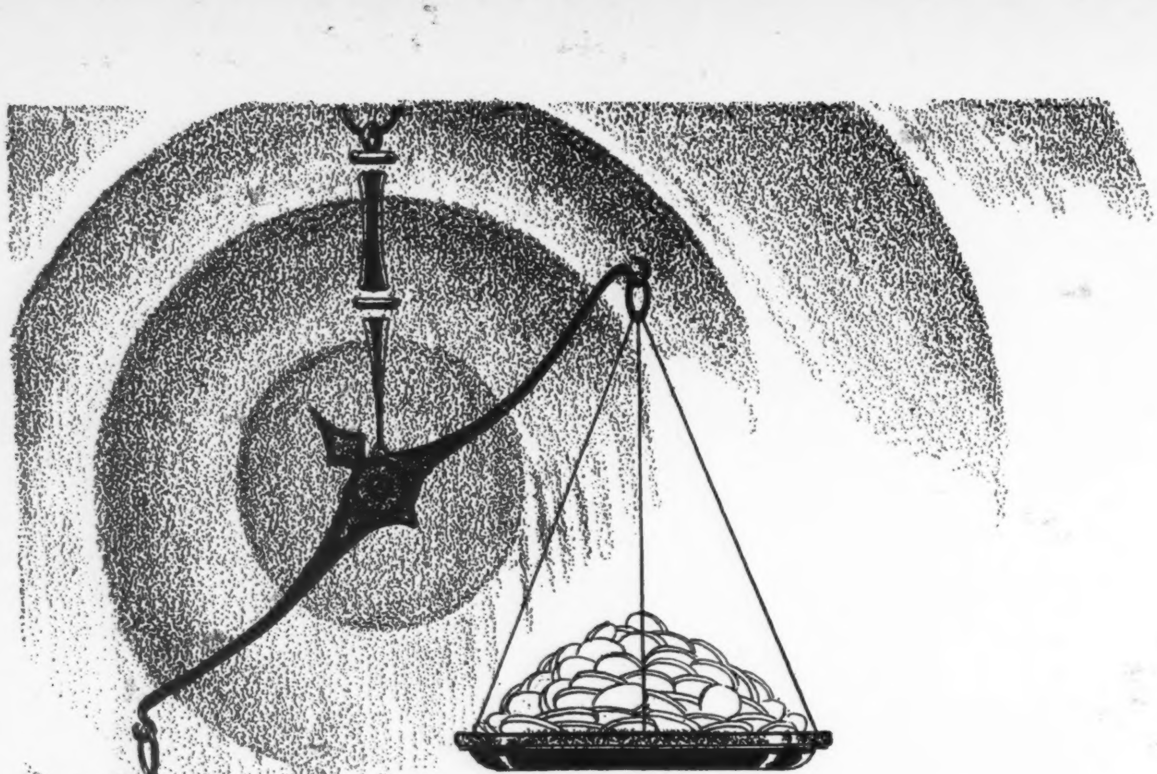

The Deciding Factor

Credit information often carries sufficient weight to control the destiny of credit dollars.

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Capable inspectors, well selected informants and an organization geared to modern production standards, produce credit reports with speed and dependability.

Check character as you would collateral.

THE HOOPER-HOLMES BUREAU, Inc.

102 MAIDEN LANE, NEW YORK

We should not Overlook the Fact that 98½% of All of the Commercial Concerns in the United States and the Dominion of Canada have Weathered 1932

Every statement made during the past two years regarding failures has emphasized the increase in the commercial mortality of this country in 1930-1931-1932.

Month after month from 1929 on the number of failures increased in comparison with the corresponding month of the preceding year.

The failure figures for the calendar year 1928-1932 were as follows—

Year	Number	Change From Previous Year	Liabilities	Change From Previous Year
1928	23,842	—	$489,559,024	—
1929	22,902	— 3.7%	483,250,196	— 1.2
1930	26,355	+14.8	668,283,842	+38.3
1931	28,285	+ 7.2	736,309,102	+10.2
1932	31,822	+12.8	928,312,517	+26.1

The fact that the increase in the number of failures from the boom year 1928 to the lowest year of the depression was only 33⅓% is remarkable.

The total number of Commercial Failures in 1932, which was the record for all time, reached a percentage of 1½% of the total number of going Commercial Concerns in the United States and the Dominion of Canada.

These facts are striking tributes to the vitality and resourcefulness of the American and Canadian business man, but the most reassuring feature of the failure records appears in the following figures—

Week Ended	Number 1933	Number Corresponding 1932 Week	Percent Decrease From 1932
January 5	596	739	—19.4
" 12	726	781	— 7.1
" 19	691	855	—19.2
" 26	702	812	—13.5
February 2	660	780	—15.4
" 9	629	693	— 9.2
" 16	563	751	—25.0
Total	4567	5411	—15.6

This gradual decline for each of the weeks of 1933 in comparison with the corresponding week of 1932 is a continuation of the same trend for the entire last quarter of 1932, compared with same period in 1931.

This change for the better in the comparative number of failures each week this year under last year may be very significant, for in each preceding depression a favorable change in the trend in failures over a period of several months has been the first definite indication of recovery.

National Credit Office
2 Park Avenue.

A. D. WHITESIDE
New York City

R. G. Dun & Co.
290 Broadway

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CONTENTS FOR MARCH, 1933

Looking ahead

The second in the series by Rhae M. Swisher on his new "circulation theory" will be featured in our April issue with the article "Truthful operating statements". Branch banking will be analyzed from the standpoint of the small bank by an independent banker of financial and literary ability. Another article will bring the problem of commercial crime to the fore.

Our cover

Since our publication date coincides with Inauguration Day, what subject more appropriate than the day's chief actor and the problems that surround him. The lame duck in one corner is from the hand of Artist Macauley of the New York *Daily Mirror*. The photograph is by Paul Haase, from the Old Masters' Studio, New York.

CREDIT and FINANCIAL MANAGEMENT

Volume XXXV Number 3

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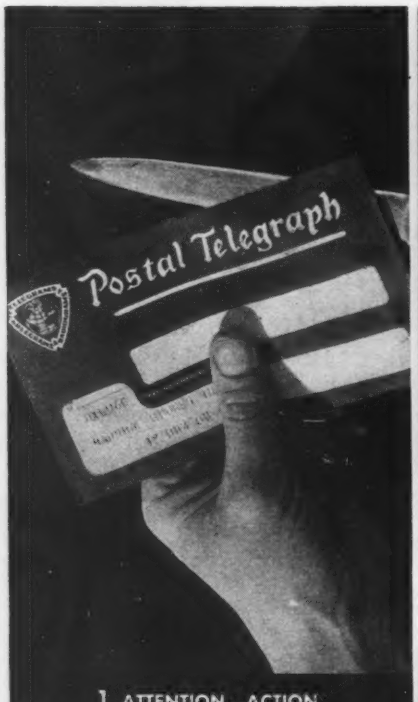
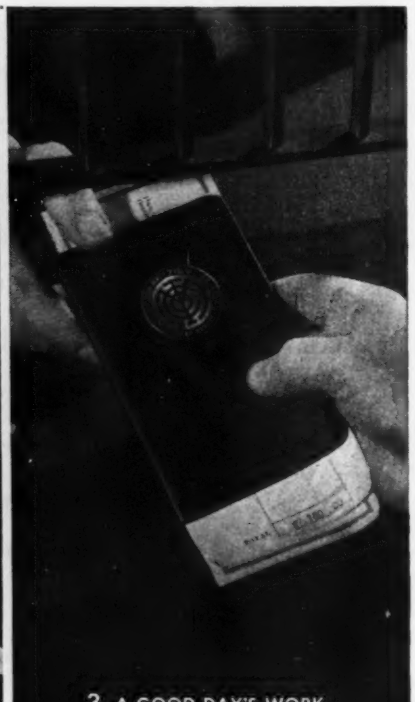
50¢ POSTAL TELEGRAM COLLECTS $7,100 *in* 1 DAY



1. ATTENTION...ACTION


2. PAID IN FULL


3. A GOOD DAY'S WORK

Among the various records of collections disclosed to us by Credit Managers is this: "A 50¢ telegram recently collected the same day a total of $7,100."

• • •

Full details of this transaction are available to you if you are interested. The point is, have you considered the action-compelling power of Postal Telegrams in *your* work?

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Have you a copy of the helpful Postal Telegraph leaflet containing 27 *tested* collection telegrams? These telegrams were gathered in cooperation with "Credit and Financial Management." They have all proved successful in actual use. Ask today for your copy, *"Collection of Overdue Accounts by Postal Telegraph."*

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THE INTERNATIONAL SYSTEM

Postal Telegraph

Commercial Cables — All America Cables

Mackay Radio

Goldfish technique

Two hundred and fifty years ago Charles the Second of England, a gay, shrewd and witty monarch, called into his study a group of the leading thinkers and scientists of the day. Several of these men were leaders in fostering the great material and intellectual development which characterized the reign of Charles.

Before him Charles had placed a goldfish bowl, with one goldfish swimming around in the water. He addressed the coterie of thinkers, the "brain trust" of 17th. Century England: "Gentlemen, I'm puzzled —very puzzled. Here is a bowl full of water with one goldfish in it. Why is it that the bowl of water weighs exactly the same when the goldfish is in it and when it isn't? What becomes of the weight of the goldfish? Does it vanish—and if so, how and where?"

Now, Charles was greatly interested in science, had his own laboratory and gave the Royal Society its Charter. This question, coming from their sovereign, did not completely surprise the learned men. But it confused and confounded them. Was it possible that a goldfish bowl didn't weigh any more when it held a goldfish? Did the weight of the goldfish vanish into air? Even though the water's buoyancy supported the weight of the goldfish, shouldn't it still register on the scales? Conferences were held! Postulates were advanced! Laws of physics were applied! Untenable conclusions were reached!

Charles sat back and waited. After three weeks of study, analysis, conjecture and hypotheses, one of the learned men decided to weigh the bowl with and without the goldfish. The scales proved that the bowl with the goldfish in it actually *weighed more;* the weight of the goldfish did not disappear at all.

Charles smiled when this fact was reported. He had known the truth and had presented the question to find out how the "best minds" would answer it. For three weeks every one of them strove to explain this false premise. Not a single one questioned its integrity or took the trouble to weigh the bowl with and without the goldfish. They based all of their studies and conclusions on an assumption instead of a fact.

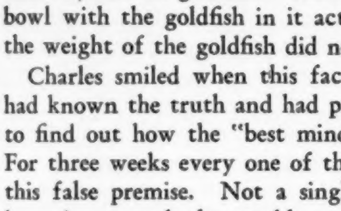
This practice or habit of reasoning, planning and acting from a false premise or fact might, as exemplified by the experiment of Charles be called "goldfish technique". Certainly it is just as prevalent today as it was two hundred and fifty years ago—if not more so. It seems to me that one of the most important attributes of leadership is the ability of a leader to establish a sound premise as a basis for reasoning, planning and acting. Once a sound premise is established, administrative officials and their assistants can carry on from there. If Mussolini's program for a Fascist Italy had been unsound as an economic premise, Italy would have had a decade of turmoil and revolution rather than ten years of economic improvement. One may not believe in Fascist principles or agree entirely with Mussolini's methods, but it must be admitted his conception of what Italy needed at the time of his march on Rome has proved to be a sound premise.

In our own country many of our major economic ills are the result of policies formulated and derived from goldfish technique. Our economic sins of omission and commission are too well known to make it necessary to analyze and discuss them. Turning, however, to innovations, remedies and panaceas that have been and are being advanced as cures for our economic ills, we find the same evidence of goldfish technique. We find Congressmen from large silver-producing states advocating bimetallism as one of the most significant factors in business recovery. When virtually the entire "silver bloc" of Congress constitutes the representatives from these states, is it impertinent to inquire whether the program for remonetization of silver is really the great economic cure that it is heralded as being, or does it represent the more or less selfish interest of a few states that would be greatly benefited by such a program?

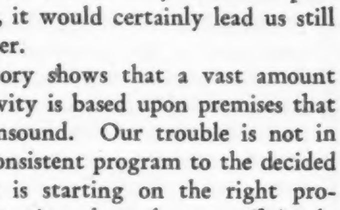
Not long ago one of the outstanding agricultural leaders of the nation, speaking to the Nebraska Legislature said: "England has played us for a bunch of suckers. The smart thing to do would be to go off the Gold Standard a little further than England has. The British debtor has paid off his debts 50% easier than the United States debtor has." Space precludes an analysis of this statement which shows, that as an unsound economic premise, it has been deduced as a result of goldfish technique. If we were to allow any legislative action or any economic program on this premise, it would certainly lead us still further toward disaster.

Contemporary history shows that a vast amount of our economic activity is based upon premises that are fundamentally unsound. Our trouble is not in carrying through a consistent program to the decided conclusion, rather it is starting on the right program. Our administrative channels are sufficiently to guarantee real results, but administrative action cannot be more than 25% effective if it is based upon premises deduced by goldfish technique.

It seems almost impossible to conceive that the leading thinkers that Charles the Second called around him could have accepted his goldfish premise without questioning it or testing it out, yet errors even graver than this are committed by many of our outstanding leaders today. At times it is very difficult for the average citizen and layman to understand how leaders can support measures and programs which are patently unsound. It might not be a bad idea for every one of our leaders to put a goldfish bowl on his desk and every time he puts forth a new idea or a new measure of any kind, to recall the story of Charles the Second and test his original premise fully and completely before he promulgates it as a basis for logical and constructive action.



Chester H. McCall



The business

a compilation of business and

Straws in the wind

Blow hot, blow cold—the following straws indicate the strength and direction of the trade winds in recent weeks:

AUTO PRODUCTION: New passenger automobiles sold in 1932 aggregated 1,096,245, a reduction of 42.5 per cent from the 1931 figure and 64.6 per cent under the five-year average of 3,099,541, R. L. Polk & Co. declared. Comparative figures for the past six years were:—1931, 1,908,141; 1930, 2,625,979; 1929, 3,880,296; 1928, 3,139,579; 1927, 2,623,538 and 1926, 3,228,695.

BANK FAILURES: During January bank closings showed a drop to 209 this year, or 43 per cent under 1932, Rand, McNally & Co. reported.

BANK CLEARINGS: Bank clearings in New York City showed their first improvement in thirty-one months during this week ending February 8th. The improvement was so substantial, amounting to almost 10 per cent, that it lifted the total for the entire country above the corresponding week in 1932. This development was taken by financial observers as one of the most important signs of improvement in business activity yet discerned. It was reinforced by another report which showed that commercial failures in January had declined, both in number and in aggregate liabilities, to the lowest figures for any January since 1930. Sponsors of the report R. G. Dun & Co. point out not only that clearings were better than a year ago, but also that they showed an improvement over the preceding week, while in 1932 at this time there was a sharp decline.

COMMODITY PRICES: The first month of the new year was a decidedly poor one in the commodity markets. From the first of January to the first of February the wholesale commodity price index compiled by Bradstreet's fell 3.8 per cent to $6.5324. This was its fourth consecutive drop and was more severe than any of these except the first. It completely wiped away the last vestige of last summer's promising rise in the price level and brought the index more than 2 per cent below the previous depression low of $6.6824 established on June first.

ELECTRIC POWER PRODUCTION: A decline of 9.5 per cent was shown in public production of electricity during 1932, which totalled 82,939,000,000 kilowatt hours, against 91,729,000,000 in 1931, the Department of the Interior reported.

FOREIGN TRADE: American exports in 1932 were valued at $1,612,305,818 compared with $2,424,288,588 in 1931, a decline of $811,981,770, the Commerce Department reported. Great Britain and Canada remained the United States' best customers with purchases of $288,462,805 and $241,424,707 respectively, the department said. Imports during 1932 aggregated $1,322,745,439 compared with $2,090,634,725 in 1931.

GOVERNMENT: The government ended the first seven months of its 1933 fiscal year with a deficit of $1,271,031,000, having collected from all sources $1,138,505,910 and spent $2,410,226,941. The public debt on January 31 amounted to $20,801,707,134, an increase of almost $3,000,000,000 in the total in twelve months. On January 31, 1932, it was $17,815,861,117.

MANUFACTURING: Recovery in factory output to the 1929 level will not be reached until 1936, if then, the Alexander Hamilton Institute declared. Definite industrial revival, however, is believed to be in slow progress at the present time, the organization stated, in assuming that manufacturing activity reached its bottom last July. The reaction which followed the August-September expansion in manufacturing activity came to a halt in November at a level above the low reached in July, according to the report.

Senator Borah's project, following upon the agitation of farm organizations, to reduce the gold content of the dollar is intended to relieve debt burdens.

The dollar is merely a convenient way of saying 23.22 grains of pure gold. Therefore, if we think of a dollar necktie as costing so much gold, we go behind the veil of money expressions, and come in contact with realities, H. B. Elliston points out in *The Christian Science Monitor.*

The world would be much less complicated than it is if we could be sure of always getting the same amount of goods and services for our chunks of gold. For many of our present economic disturbances arise from lack of price constancy. Within the last three years the dollar has appreciated no less than 35 per cent. That doesn't mean that each one of us can get 35 per cent more value for our money. What it signifies is that in the wholesale market the dollar now fetches on the average 35 per cent more than it did in 1929. The result is a series of maladjustments until the original trouble is settled.

Premier among these maladjustments is the increased burden of debt. Unlike goods and services, debts are not flexible in their dollar price, but remain fixed no matter what is happening to, say, wheat or cotton. Yet, as every farmer knows, the link between debts and wheat or cotton is a very real one. Only out of the proceeds of these commodities can he continue to pay his debts.

What has happened? A farm mortgage contracted in 1929 and bearing 5 per cent interest is still priced at $1,000, and the farmer has still to pay $50 a year on it. Yet he can get only half the dollars for his wheat that he got in 1929, and thus he has to produce twice the amount of wheat to make up the same interest payment.

Many schemes have been offered to iron out this disparity between debts and the general price level. Till lately they have been concerned only with financial measures for lifting commodity prices. Several have been tried. For various

thermometer:

financial trends and indications

reasons, however, they have not been successful so far.

Hence the popularity of the Borah solution. If prices cannot be lifted, says this school, then we must turn to debts. Cutting down the gold content of the dollar would leave the debts untouched in their face value. But the step would automatically lessen the value in commodities of fixed dollar obligations, because the dollar would be represented by a smaller weight of gold. Debts would find a parity with wheat. So runs the argument.

There can be no doubt that the present burden of debts must be made manageable. If present commodity prices are going to harden into a new level, the Borah plan is theoretically the easiest path of readjustment. Simply by act of Congress a Gordian knot would be cut which today has a strangle hold on economic enterprise and social well-being.

It might achieve at one stroke what it would take protracted and sometimes bitter scaling-down negotiations to accomplish. However, the theory does not fit in with actual conditions. These may be enumerated as follows:

1. It would violate the sanctity of contract.

2. It would disturb the confidence of investors.

3. It could not be applied to all debts.

Too much need not be added to the weight of reminders about the sanctity of financial contracts. Certainly this canon lies at the foundation of our economic system. But at such times as these the sanctity of contract must give place to the common good. To revise what has become so intolerable as to assume the proportions of a millstone around the neck of economic society is a state function. As Mr. J. M. Keynes says, the absolutists of contract are the real parents of revolution; and individualist society depends upon moderation.

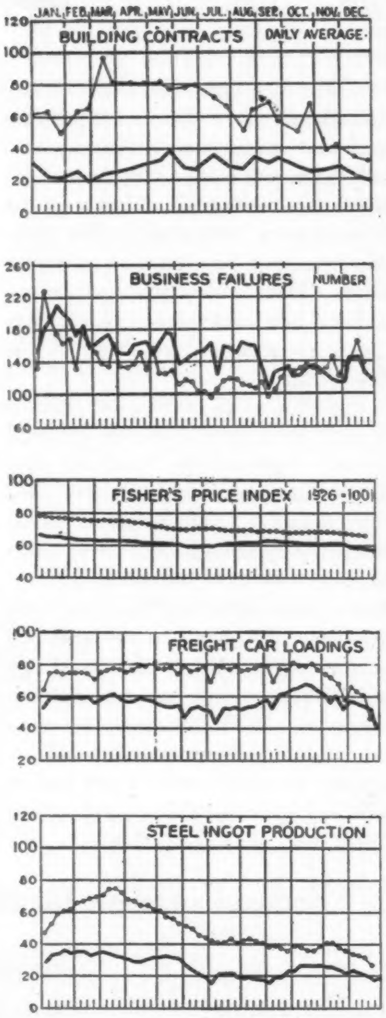
At the same time, to pass on the second point; the sanctity of contract is a prerequisite to the return of investment confidence. Investors are the money-holders. It is to them that industry must apply for the funds wherewith to restart the wheels of industry. Governments, hesitant to tax in time of depression, are also dependent upon them. Very soon the Federal Government, after having eked out the deficits of the last 18 months by selling its short-term notes and certificates, will appeal to investors to buy long-term bonds for the same purpose. How will the investors respond? If the experiment is successful, and the investor is found willing to lend his money for extended periods, industry may possibly be encouraged to make similar applications to him. Any move to reduce the gold content of the dollar, however, would obviously fill him with disquiet about future monetary policy.

The third consideration seems to have been overlooked. Not all our dollars could be deflated by this device. Here we encounter a contract within a contract. The bonded debt of federal, state and municipal authorities and of all corporations, amounting to $85,000,000,000, or 42 per cent of the whole interest-bearing debt outstanding in the United States, is payable by its terms in dollars of the present standard. In other words, not only must the debt be paid; it must be paid in dollars of their present gold weight.

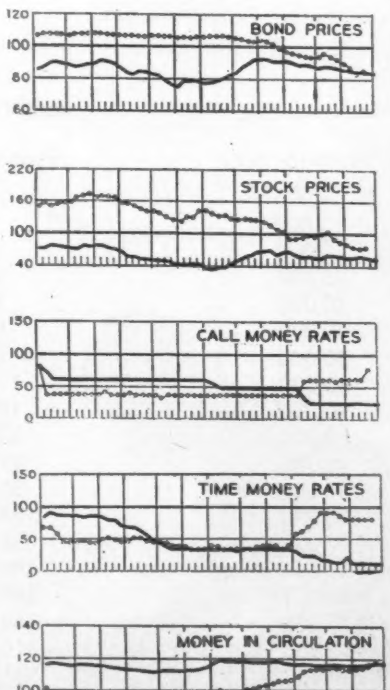
Mortgage-ridden farmers and real estate holders would feel the benefit of the Borah plan, but industry and the taxpayer wouldn't, and, though it may be argued that half a loaf is better than no bread at all, nevertheless the discrimination would doubtless cause endless complications, perhaps almost as many as will be entailed in the individual scaling down now in progress.

One sign that the agitation will be sidetracked is the speeding up of coöperative measures to adjust the top-heaviness of debts, the pressure of which on economic recovery cannot be overemphasized.

Commercial



Financial



U. S. Dept. of Commerce charts (right) 1923-25 = 100.

Brother, do you

by FRANK E. SEIDMAN, C.P.A.
Seidman & Seidman,
New York, N. Y.

Income tax days (or shall we say daze) are here again. The time for our annual reckoning with Uncle Sam, our silent but formidable partner, has arrived. What's more, there has been a "new deal." The partnership contract has been considerably changed. Different terms and conditions have been provided. Uncle Sam has been given a greater share of the profits—if any.

To many of us the subject of income taxes may be merely a matter of fond memories. Gone are the good old days when the tax we had to pay gave us a piercing headache. The headache in all its intensity continues, but now it is because we may have *no* tax to pay.

However, whether we like it or not, returns may still have to be filed because the requirements are based on gross income, and not on net income. Furthermore, we should insist on making an accounting, as it is possible in many cases to make use of a net loss as a credit bill against 1933. Then again, there are still some left who have net incomes on which taxes must be paid. So that between now and March 15, we must again remove the cobwebs that accumulated since last year on our sharpened income tax wits, and buck the line once more. We'll review here some of the new formations.

A single person who has a net income of $1,000 or more for the year must file a return. A married person whose net income is $2,500 or more, must likewise file a return. Last year the requirements as to net income were $1,500 in the case of a single person and $3,500 in the case of a married person.

The rule has always been that every partnership is required to file a return. However, the new law considers as partnerships, even though they may not legally be so, syndicates, pools, joint ventures, etc., that are not corporations or trusts. That means each such syndicate, pool, or joint venture, must file a partnership return showing the participants as partners.

In the case of a single person, the exemption is $1,000. Last year it was $1,500. An unmarried individual is entitled to an exemption of $2,500 if he is the head of a family. Under the old law, this exemption was $3,500. The exemption of married persons is $2,500, compared with $3,500 last year.

In the case of the $400 exemption for each dependent, under the old law it was the status at the end of the year that controlled. This is now changed, and the new rule is that if a change takes place during the year, as a child being born during the year, or a dependent dying during the year, the exemption is computed on a pro-rata basis.

The new law allows no exemption at all to corporations. They used to get $3,000 if their net income was less than $25,000.

Estates and trusts are regarded like individuals, and their exemption is reduced to $1,000.

Rates were stepped up sharply. Corporations will now pay 13¾% against 12% last year. In addition, if two or more corporations are affiliated, and they elect to file a consolidated return, they must now pay toll for that privilege in the amount of an additional ¾%, making their tax rate 14½%.

Individuals have fared even worse. The normal tax rates have leaped to 4% on the first $4,000 of income in excess of the exemption, and 8% on the remainder. Last year, the normal tax rates were 1½%, 3%, and 5%. Surtax rates have sky-rocketed from a maximum of 20% to a maximum of 55%. They now start at $6,000 of income against $10,000 in the old law. Whereas last year the maximum combined normal tax and surtax rate amounted to 25%, this year it is 63%. The 25% earned income credit has been eliminated entirely. The consolidation provision—that which permits net business losses of one year to be applied against future income—has been modified, so that now such losses can be carried forward for one year instead of two as before.

Drastic changes have been made in the right to deduct security losses. The

Federal income taxes under the 1932 law

Corporations

Classification	Present Tax	Old Tax
Single Corporations	13¾%	12%
Affiliated Corporations—Consolidated Returns	14½%	12%

Individuals*

Net Income	Present Tax	Old Tax
$ 1,000	$	$ ......
5,000	160	39.38
10,000	600	191.88
20,000	1,800	911.88
30,000	3,600	2,071.88
40,000	5,920	3,491.88
50,000	8,720	5,171.88
60,000	12,020	7,091.88
70,000	15,820	9,251.88
80,000	20,120	11,551.88
90,000	24,920	13,951.88
100,000	30,220	16,351.88
150,000	58,220	28,851.88
200,000	86,720	41,351.88
300,000	144,720	66,351.88
400,000	203,720	91,351.88
500,000	263,720	116,351.88
750,000	416,220	178,851.88
1,000,000	571,220	241,351.88

* Based on $1,000 exemption.

have a dime?

If you have, it may be eligible for an income tax under the new provisions.

new rules affect only losses on securities held for less than two years, or more accurately, losses that are not capital losses. Profits and losses on securities held for more than two years are taxed as before. (For convenience, we will consider securities held for more than two years as capital assets, though there are some exceptions to this.)

Heretofore, in the case of securities held for less than two years, profits were taxable in full and losses were deductible in full. Now, while profits are taxable just as before, losses are deductible only as an offset against such profits. If the losses exceed the profits, no deduction can be taken for the excess. For consolation, the excess losses can be carried forward into the next year's figures and used to offset any profits in the next year from securities held for less than two years. Here, too, however, there is a "but." The amount carried forward cannot exceed the net income of the prior year.

An example of the application of these new rules may help the better to show the changes wrought: In 1932, A comes through the year as follows: Salary, $25,000; profits on securities held for less than two years $1,000, losses $30,000. Under the old law, A would report a loss for the year. He would show a salary income of $25,000, reduced by $29,000 of net losses on securities held for less than two years, resulting in a net loss for the year of $4,000. He would therefore pay no tax. Under the new tax law, here's the picture:

Salary		$25,000
Net loss on securities held less than two years:		
Profits	$1,000	
Losses—Actually $30,000, but deduction limited to amount of profits (hence $29,000 not deductible)	1,000	
Net Taxable Income		$25,000

A therefore will have to pay a tax on an income of $25,000, though he actually ended up the year in the red to the tune of $4,000. This is all new—and to A probably a bit disturbing.

Let us do some more exploring on this. First of all, to whom do the new rules apply, and to whom don't they apply? The restrictions of the new law apply to corporations, partnerships, and trusts, as well as to individuals. Exceptions are made in a few cases such as banks, dealers in securities, etc.

What do we mean by "securities"? In general, it embraces all stocks and bonds. This means, too: rights, certificates of interest in investment trusts, etc. Here again there are exceptions. Most important of the exceptions is that the restrictions do not apply to bonds, debentures, or notes of any government (domestic or foreign) or its political subdivisions. Also, the new restrictions do not apply to bonds, debentures, or notes issued by any individual, partnership, or trust. These items that are exempted have the same status as under the old law. The same is true as to profits and losses from trading in commodities or foreign exchange.

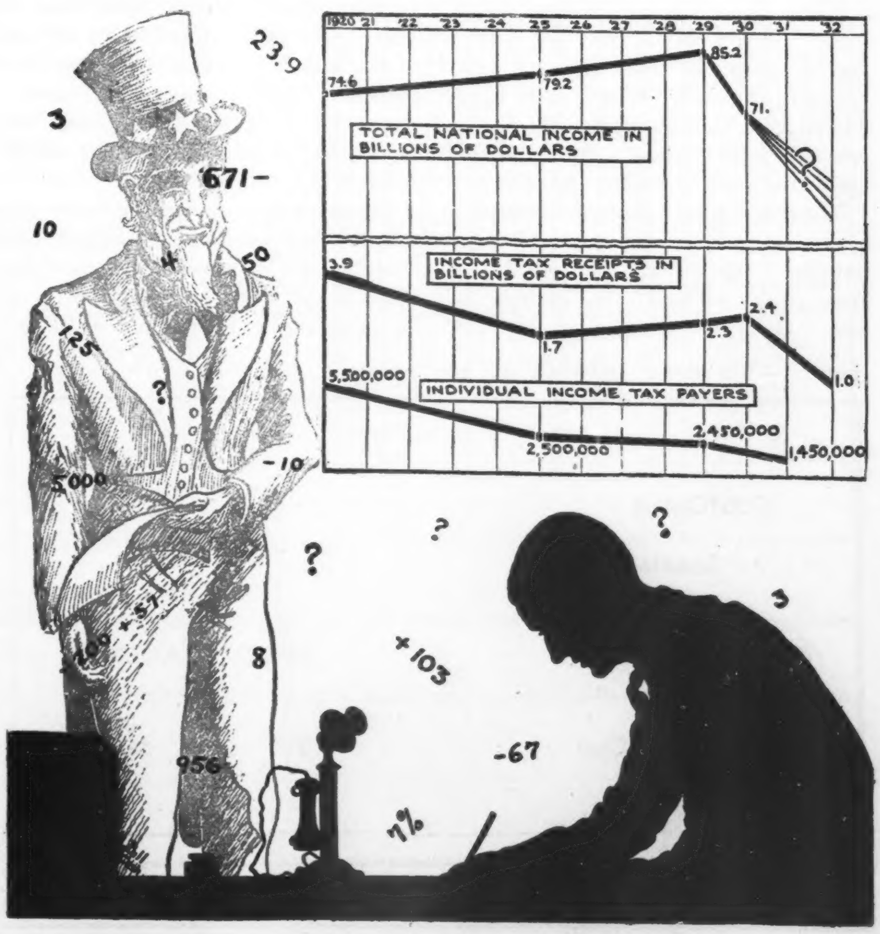
There is an important aspect connected with short sales. Even though a short sale position is not covered for more than two years, the law declares that gain or loss from short sales shall be considered as being gain or loss from securities held for less than two years. This means that losses on short sales are never deductible in and of themselves. They can only be used as an offset against profits from securities held for less than two years. The poor short trader!

Dividends or interest from building loan associations used to be exempt up to $300. The exemption has been removed by the new law.

The exemption has also been removed with respect to amounts received as compensation, family allotments, and allowances for war risk insurance, or as pensions for military service, including the soldiers' bonus.

All told, the income tax becomes entitled to a more formidable "chunk" of our income than it has for a long time past.

Illustration, courtesy of John C. Wjnston Co., publishers of "Your New Income Tax". Charts by the Associated Press.



The order speaks

Because orders are the heart and soul of a business, there is where our analysis of business conditions should start.

No major movement in trade can develop without revealing itself in the current trend of Quantity . . . Price . . . Amount.

What is business? Business is orders! Given plenty of sales, you can get the price necessary for adequate profit. With plenty of sales you can afford the right plant and equipment; you can control materials and deliveries. Orders make the master of almost any situation. The only exception occurs during those abnormal times when there is a shortage of materials, men, and transportation facilities. But such conditions prevail only about once in a generation. The master-key of all ordinary business is orders.

Because orders are the heart, soul, lifeblood, and mainspring of business, here is where our analysis of business should start. Dissect an order. You notice that it consists of three elements; first, Quantity; second, Price; and third, Amount. In fact, on many order forms, you find printed these actual headings, Quantity, Price, Amount. (See Fig. 1.)

These are three elements connected by a simple, direct and invariable relationship. Quantity, multiplied by Price, equals Amount. For example 10 tons (Quantity) multiplied by $15

A practical method for analyzing business conditions . . . outlined by WALDO HUTCHINSON

(Price) equals $150 (Amount.)

You can picture all the business in the country as a towering stock of orders. Retailing can be included by means of sales slips, which also have these same three elements of Quantity, Price and Amount. Even the labor of mowing a lawn is billed in this same identical form; 3 hours labor at $1.00 is $3.00. In fact, the whole vast and complex activity of the nation's business can be visualized accurately as a colossal pile of orders, sales, slips or bills. And each one of these millions of memoranda has exactly the same three elements (Quantity, Price and Amount) connected in exactly the same way (Quantity, multiplied by Price, equals Amount.)

Hence, when you look out over the country and ask, how is business? you really are asking three questions. First, what is the trend of the Quantity of business, its physical volume, its magnitude in tons, bushels, carloads cases, and other units of quantity? Second, what is the trend of Prices? Third, what is the trend of business measured in the Amount of dollars, the value, or the financial magnitude?

Fig. 1.—The three essentials of any order.

SHIP

CUSTOMER

Sometown State

QUANTITY		PRICE	AMOUNT
10 tons	Coal	$15	$150

When you have answered these three questions to your satisfaction, your view is fundamentally complete. You know basically what business is doing. No movement of major importance can be in progress without betraying itself either in the trend of Quantity, the trend of Price, or the trend of Amount. Every important change must set off at least two of these three alarm clocks.

This does not imply, of course, that all known facts can be expressed in three words. The point is that if you have only a limited time for the study of business conditions (say five minutes a week) you can profitably concentrate on these three elements, with the assurance that no radical change can develop without catching your attention. The vital indicators of national business for the business man to watch are the three elements now under discussion.

One of the simplest ways to watch the trend in the Quantity of business is to keep an eye on freight car loadings. These figures are widely reported in the newspapers and business press. There are some "Jokers" in this record, but they need not mislead you. In the first place, car loadings were increasing from year to year, and this normal growth may magnify an "improvement" or mask a "recession." In the second place, car loadings rise and fall from month to month because of purely seasonal influences.

Therefore, fix your attention not so much on the actual figures, as on the comparison of each week with the corresponding week of the preceding year. By this simple device you dodge the

first two difficulties. In the third place, because of holidays, weather conditions, and other influences car loadings for any particular week may be erratic. Therefore, always look at several successive weeks and don't give too much weight to the showing made by a single week only. Follow these simple directions and you will get along all right.

To watch the trend of Prices, use some of the price indexes which appear in many publications.

The trend in the Amount of business can be conveniently followed by the figures of check transaction. These are reported regularly in many newspapers and the business press. In watching these figures it is well to take the simple precautions that were mentioned previously in connection with car loadings; namely, compare each week with the same week a year ago, and always look at several successive weeks instead of a single week only.

It is interesting to note whether the system will check up and prove itself. Obviously, on any particular order, sales slip, or bill, you obtain the Amount when you multiply the Quantity by the Price. Does the same relationship hold when dealing with the stupendous total of all business in the country? Theoretically, this relationship ought to hold, but what happens when you make an actual test with the rough and incomplete data available?

Since the figures come from three different sources, and at best are only approximations, it cannot be expected that they will check up with minute precision. However, when you actually examine the three series (Car Loadings, Price Index, and Check Transactions) each week for the last four or five years, the relationship is unmistakable. It is necessary to express each figure as a percentage of a year ago. If this is done, you can see at a glance the following tendencies:

The physical quantity of business can make a distinct increase; but if prices fail to rise, the dollar amount of business will still remain fairly small. The record shows this plainly. Or prices can rise; but dollar amount will not soar unless there is also a growth in quantity.

In other words, the marked slumps in business come when both quantity and price fall off simultaneously. The marked peaks come when there is a joint rise in both quantity and price.

This explains why there is often a disagreement when different people are describing business conditions. One man has in mind Quantity, another man is thinking of Price, and still another emphasizes Amount. The only way to get a clear and consistent picture of what business is actually doing is to look at all three elements and recall their relationship. Nine out of ten of the disputes and debates will disappear when this is done.

It is curious and interesting to observe that at times the principle checks up with almost mathematical precision. For example, in the middle of July, 1924, and percentages of the preceding year were as follows: Quantity 90, Price 92, Amount 82. Since 90 multiplied by .92 equals .82, this is very close.

Again, in early June of 1925, the percentages readings were: Quantity 109, Price 111, and Amount 120. Note that 1.09 multiplied by 1.111 equals 1.20.

Or, in early December of 1926, the percentage readings were: Quantity 103, Price 93, and Amount 96. This checks quite closely, since 1.03 multiplied by .93 equals .95. The method, therefore, seems sound both in theory and practice.

This method of analysis the Quantity, Price and Amount method will do more than keep you in touch with fundamental business conditions. It can be directly applied to your own individual business. (See Fig. 2.) If sales in general are 110 per cent of what they were this time a year ago, how do your own sales compare on the same basis? If prices are 90 per cent of those a year ago, is this true of your own prices? Does your amount (in dollars) of sales correspond with the general percentage of increase or decrease?

If these percentages of yours vary from the general trend it does not necessarily show that you are abnormally weak or abnormally strong. Your own particular business may be one which is characteristically early or late to respond to fundamental changes. Whatever is the relationship you bear to general business whether you "lag" or "lead" it is exceedingly useful to know at all times just where you stand. For example, you may find that a rise or fall in general business is a fore runner and forecast of a similar tendency at a later date in your own sales.

Fig. 2. A suggested form for keeping track of business conditions.

	OUR QUANTITY % of same month last year	GENERAL QUANTITY % of same month last year	OUR PRICES % of same month last year	GENERAL PRICES % of same month last year	OUR AMOUNT % of same month last year	GENERAL AMOUNT % of same month last year
JAN.						
FEB.						
MAR.						
APR.						
MAY						
JUNE						

Reserves–

Does "reserves" in a balance sheet qualify for the role in which it is cast. "All the world's a stage" . . . . but what character should "reserves" be given.

by MYRON M. STRAIN, C. P. A., San Francisco, Cal.

Does the "ratio of reserves to net worth" indicate the "degree of conservatism of management"?

Is the Magnifico Manufacturing Company "in splendid condition, because of its ample reserves"?

Are all, or any, of the similar statements that one is constantly seeing and hearing in financial discussions true, and is the significance which is so commonly attached to the word "reserve" justified.

It grieves me to have to stand in the party of the opposition and to cast slurs on one of the standard conversational and literary resources of financial writers and talkers. But facts are facts, and, unfortunately, the only possible answer to the questions postulated is an unqualified and emphatic "No." Reserves, as they are found in the balance sheet, have no such significance as is commonly assigned to them. They do not indicate the things they are commonly said to indicate. And all the gabble that goes on about them is probably spreading more misinformation than a whole corps of Soviet propaganda agents.

The misconceptions which are so frequently encountered on this subject are undoubtedly the result of confusing a common word with its common meaning. This is ordinarily a sensible thing to do, but sometimes, when the word is used in a technical sense, it becomes dangerous. The word "rap", for example, has a meaning to the ordinary citizen different from its meaning to a drainage engineer, and different again from its meaning to a gangster. If an army has ample reserves, it is probably in an advantageous position. A corporation which has ample reserve *strength*, that is, unencumbered credit resources, or cash or securities in excess of its normal requirements, is also to be thought well of. But a corporation which displays large reserves on its balance sheet discloses thereby one of three conditions:

1. That its plant, buildings, machinery, etc., are estimated to have had a considerable part of their useful value used up.
2. That it has incurred liabilities, the terms or amounts of which are uncertain—that, for example, it is defending itself against damage suits.
3. That it has placed limitations on the amount of earnings which may be distributed to stockholders in dividends.

How, you inquire, may these things be? They are, simply, because, in the lingo used by accountants in preparing financial statements, special and technical meanings are attached to the word "reserve". When you examine your annual reports next month, or read the statements of companies in which you are considering investment, it will probably stand you well in hand to know what those meanings are, and so we will discuss them briefly. Briefly, and, I may add, in their broader and more empirical aspects, for neither the practices nor the theories of accountants on the subject of reserves are at all settled or unified. Some little time ago, desiring to make some special observations of the matter, I consulted the works of practically all the accounting authorities to learn their views on reserves. Not satisfied with this investigation, I turned to the practitioners, and examined perhaps twenty or thirty balance sheets prepared by ten or twelve of our best regarded accounting firms. The result of the tabulation of this material was, I regret to say, depressing. Not only was there a wide divergence between all the authorities, but the practitioners tended to disagree not only with the authorities but among themselves. Worse, some firms even developed major inconsistencies between various reports issued by themselves, so radical in character as to make it almost impossible to interpret their presentation of financial position. Obviously then, this is a field where it is desirable to tread cautiously, and where nothing more than the clearer and better settled phases of the question should be propounded. Within the area prescribed, however, we can at least clear away the delusions to which I have referred, and establish a few broad and basic definitions.

First and commonest of the reserve family is what most authorities refer to as "valuation reserves". These reserves are simply a technical device to reduce the valuation of the property to which they apply from the amount originally assigned to it, usually on acquisition, to some other amount representing its value at the time of the financial statement. Their amount, short of actual impropriety, in preparing the records, is governed by physical conditions, not by the "conservatism" or "strength" of the company.

Reserves for depreciation are among the most typical valuation reserves. If A buys an adding machine for use in his office on January 1, 1930, what he is buying, plainly enough, is the service of a mechanical aid to adding figures for an estimable period of time. Suppose that A estimated the period of time during which his machine will serve him in this way at ten years, and that he paid $150.00 for it. It is clear that the essence of this transaction is that A has paid in advance for mechanical adding service for ten years at $15.00 per year and that the passage of each year will consume one-tenth of his total outlay in current operating expense. Thus,

with reservations

Marionettes by Tony Sarg from "The Rose and the Ring."

at the end of 1930, one-tenth of the services for which he paid will have been used, and the asset value of his adding machine will have declined to $135.00. The same thing will have happened in 1931, and at the end of that year the value will have gone down to $120.00. Now the conventional manner for the accountant, writing on December 31, 1931, to display this value would be as follows:—

Adding Machine	$150.00	
Less: Reserve for Depreciation	30.00	$120.00

And that, really, is all there is to the theory of depreciation reserves. They record the part of the original value that has been used up in the services already rendered by the assets of the company at the time of the report. Why should the thing be done in that way, instead of by a simple statement of present value? There seem to be two reasons. One is a mere matter of bookkeeping convenience, of keeping an account with assets which can be readily analyzed without one's having to take into consideration a confusing number of deductions for depreciation, by means of putting all the deductions together in a separate category and labelling them "Reserve for Depreciation". The other is that some students of financial reports feel that, by inspecting these reserves, they can form an opinion as to whether or not enterprises are making adequate provision for the wearing out of their property. It is doubtful whether they can, in most cases, because the matter is usually a rather complicated engineering problem. But, in any event, even if they feel that way about it and the accountant is willing to oblige, it is too bad to have some financial analyst look at a balance sheet displaying A's nearly worn-out adding machine, along about 1939, and say:—"A is a conservative man in a strong financial position. He has provided a substantial reserve of $135.00 against an asset costing $150.00!"

Other common "valuation reserves", the sole purpose of which is to notify the reader that an asset, starting out at one value, is actually going to serve its master to a lesser extent in the future, are "Reserves for Depletion", "Reserves for Inventory Revaluation", "Reserves for Amortization" and "Reserves for Bad Debts". Sometimes one encounters reserves of this character among the debts of a company on the right-hand side of the balance sheet, instead of finding them deducted from assets. I have never been able to get one of my colleagues to give me a rational reason for this procedure, but you may safely assume that they have nothing more to do with conservatism and strength in that position than in any other.

The practice of describing as "Reserves" such debts as accrued taxes, unpaid insurance premiums, salaries, wages, etc., once popular with accountants, has been frowned upon and now seems to be in decline. Nevertheless, it is still encountered occasionally. There is, however, another class of debt to which the term is still commonly applied. A trustee liability for employees' pension fund, for example, is generally stated as "Reserve for Pensions". Estimated liability under guarantees, discounts, disputed or litigated adverse claims and the like, frequently appears in the balance sheet in "Reserves". So much is this true that some authorities specifically provide for a class of "Liability Reserves". It would be difficult to imagine anything more grotesque than an enthusiasm over the "conservatism and strength" of a concern displaying large reserves, really masquerading debts, because it was foundering in damage suits, demands for back taxes and claims under breaches of guarantee.

There remains one additional class of reserves, a class which accountants are fond of calling "true reserves" or "Surplus Reserves". Here we approach the borderland of accounting metaphysics, and we will proceed cautiously. It may be possible, however, to provide a general notion of the subject rather simply, and I shall do my best.

You are probably familiar with the fact that your corporation's balance sheet not only lists and values its assets, on the left-hand side, and its debts, on the right, but also the ownership equities in the excess of assets over debts. This equity represents, usually, several different kinds of proprietary rights. First, there is the capital stock, divided into its various classes according to the priorities, privileges and preferences of each. There is one peculiar and essential characteristic of the capital stock equity, and that is, that it cannot ever lawfully be reduced by withdrawals—dividends—until the corporation liquidates under proper legal auspices. It represents, then, a kind of non-withdrawable estate in the corporation's net assets. Next to capital stock, usually, you will find another expression of proprietary equity called "Surplus". Now surplus is, generally speaking, the result of a corporation's profits, and it is the exact antithesis of capital stock with respect to the characteristic just discussed, in that it is a distributable kind of estate in the corporation's net assets. A corporation may, at the option of its board of directors, declare and pay dividends up to the full amount of its surplus account, and no further.

It must be clear from this that anything that increases (*Cont. on page* 44)

Compulsion!

No valid reason exists why institutions operating with funds from the public should not take those who supply those funds into their confidence.

A brief for compulsory accounting services by
ROBERT ATKINS, C. P. A.,
New York, N. Y.

To the average person a proposal which contains any elements of compulsion creates a feeling of opposition irrespective of the fact that it may, if adopted, produce very beneficial results.

This inherent aversion to restraint may account for many of the minor violations of laws and ordinances which may be observed from day to day.

While it would be impossible to estimate with any degree of accuracy the benefits to be obtained from compulsory accounting services, there can be no doubt that they would tend to prevent the exploitation of the public by unscrupulous promoters and incompetent financiers. The enormous losses which investors in bank stocks have suffered during the past three years as the result of a belief in the protection afforded by State banking supervision, furnish a convincing argument in favor of a service which shall be free from the defects which are apparent in the present system. It ought not to be necessary to have recourse to legislation similar to that which prevails in China, where for upwards of 1200 years no bank has failed.

Recent losses sustained by investors in certain public utility and industrial corporation bonds and stocks have also shown how unwise it is to invest in the securities of concerns which do not furnish information as to their progress and condition at regular and frequent intervals.

No valid reason exists why corporations or institutions which are conducting their operations with funds furnished by the public should not take those who supply these funds into their confidence.

There is no hope of ever making people honest by legislative enactment, but it is possible to require that certain formalities be observed in particular cases which will tend to minimize dishonesty and misrepresentation. That these may be minimized is evident from the results achieved in England where, in 1862, laws were first enacted for the protection of investors in the shares of corporations. These laws, with subsequent revisions, are still on the statute books of that country and are generally enforced, to the great benefit of those for whose protection they were enacted.

The continually increasing expenditures by states, cities and other political sub-divisions would indicate a need for compulsory accounting services. The state of New Jersey has enacted laws which require the audit of public accounts. Commenting on these laws, Edward L. Suffern, C. P. A. stated:

> "They have impressed a great many of the governing bodies which never were so impressed before with the importance of careful and legalized financing and accurate accounting. They have imbued many officials with a higher sense of responsibility and have established and co-ordinated administrative measures that did not exist or were unrelated before."

Reports on audits of public accounts should be made available to all the taxpayers of the districts in which such audits are made. It is difficult to understand why there has not been more insistent demand on the part of taxpayers for the information divulged by audits, which the taxpayers are entitled to receive and which would enable them to determine with what measure of economy and efficiency their affairs were being administered. Each individual, either directly or indirectly, bears a share of the burdens of taxation and therefore each person should be interested in knowing how the money raised by the various forms of taxation is spent.

There is at the moment an interest in tax matters probably in excess of that existing at any previous time in the history of this country. The reason for this is found in the increasing tax burdens which have been laid upon the taxpayers. In certain sections of the country the burden has become almost unbearable and various expedients have been resorted to in order that the functions of government may continue. Needless to say this is an unhealthy condition and one which cannot be permitted to continue indefinitely.

One needs but little business experience to appreciate the viewpoint which Herbert Spencer had when he wrote his essay entitled "A Business Principle" from which the following is quoted:

> "Many years ago, when on the managing committee of a club, I disgusted the secretary by remarking that in matters of administration, as in matters of business at large, the maxim should be: Do not suppose things are going right till it is proved they are going wrong, but rather suppose they are going wrong till it is proved they are going right. This was a hard saying for an official to hear; but, I hold it to be a saying worthy of recognition by those who are concerned with affairs, private or public."

In this connection his concluding thought is especially interesting:

> "It should ever be borne in mind that with a type of human nature such as now exists, going wrong is certain to occur in course of time if there are left any openings for going wrong, and that the only prudent course is to be ever seeking out the openings and stopping them up."

There is no better way of measuring managerial responsibility than through the medium of properly prepared reports. If such reports are favorable and have been independently verified by competent accountants, the owners of a business may rest secure in the belief that everything that can be done by the management is being done to keep the investment safe, to improve operating efficiency and, so far (Cont. on page 33)

Cooperation: the credit man and the C. P. A.

More frequent intercourse between debtor, creditor and accountant will foster better understanding and avoid many post mortem gatherings.

by GEORGE D. FISH, C. P. A., George D. Fish & Co., New York, N. Y.

The evolution of modern industry has brought the accountant and the credit executive into close relationship. These two professions are of comparatively recent origin. Their development was a result of the enormous expansion and increasing complexity of commerce coupled with its growth from local limits to that of international proportions. With the increased magnitude of commerce, the element of personal contact between the debtor and creditor has been largely curtailed. The extension of credit is no longer based on personal acquaintanceship with the character, business methods and financial standing of the credit seekers, but is placing increasing reliance upon recorded facts. The problems thus created caused the evolution of the modern credit executive.

The beginning of accountancy as a profession in the United States can be traced to the arrival of the English chartered accountants who came over in the latter part of the Nineteenth Century to supervise and safeguard the investments of English capital in our infant industries. Accountancy has since then made rapid progress, assuming an increasingly important position in our economic life. Accounting is the crux of business management; it is the most adequate tool for describing and coordinating the multitudinous and complex factors that constitute its daily fare.

The value of the services of the accountant has progressively advanced until today he has attained a position of great responsibility not only to his client but also to the public and to the investor. This phase of the accountant's work is at present emphasized. Aside from the value of his services to the management of a business enterprise, his training and his opportunity for obtaining an intimate understanding of the concern's financial position, places the accountant in an unique position in his relation to his client, and to those who would invest or do business with the concern. The services of the accountant in this connection can be of value when, and only when such information is promulgated in an honest and unbiased fashion. The growing recognition of this conception of the accountant's position in our present economic structure is evidenced by the ever greater demand in most business and banking transactions for financial statements which are prepared by public accountants. The Insull and Kreuger incidents will tend to stimulate the agitation in recent years for independent verification by accountants of the affairs of large corporations, municipalities and public utilities. The recent rulings of the New York Stock and Curb Exchanges to the effect that the financial statements of applicants for listing be verified by independent accountants is one result of this agitation.

Since in our modern business society both the accountant and the credit executive are inter-related, they must have a common meeting ground. This can be cultivated by their respective professional associations which are the effective agencies for meeting the problems of everyday practice in their particular fields. Through their committees on cooperation a means is offered for developing a sympathetic understanding of and respect for each others viewpoints. Cooperation between the credit executive and the accountant is most essential to the solution of their common problems. Such an organization, for instance, as the Robert Morris Associates "Committee on Cooperation with Accountants" has accomplished a great deal in bringing the accountant and the credit executive closer together.

A greater freedom and facility in the relationship of the accountant and the credit executive is being fostered particularly in the textile industry, where the debtors are more readily granting permission to their creditors to consult their (the debtors') accountants. Most forms now issued by credit agencies for the purpose of obtaining financial statements ask the authorization for the debtor's accountant to supply "such information as they request". The extent of the information divulged by the accountant should however, be limited to the understanding between him and his client. The credit man must bear in mind that the accountant is engaged by the debtor in a confidential capacity similar to that of a lawyer or a physician. The client therefore has a right to expect that the accountant will keep all information that he gains about him while in his employ, as strictly confidential and that the accountant shall not reveal it without his consent.

It might be here stated that the New York State Society of Certified Public Accountants at its monthly meeting held in January, 1933, proposed to modify its by-laws (*Continued on page 33*)

Truthful financial statements

Worth of a capital entity on a submitted Balance Sheet, before and after the credit executive's analysis, is often quite different.

All capital values in use by the owner are called "circulating values" while those not in use are classed as "non-circulating".

First of two articles by RHAE M. SWISHER, C. P. A., Hammond, Ind. Next month: Truthful operating statements.

The Balance Sheet has been subjected to a great deal of comment and criticism during the past few years because those who have depended upon this form of financial statement as a basis of credit, either trade or investment, have experienced and are experiencing grave disappointments. The values stated have not materialized and in many cases these critics have just cause to complain. The abuses and inadequacies have been many and have been costly.

Trade credit men will affirm the statement that the worth of a capital entity on a submitted Balance Sheet, and the worth after the credit man's analysis has been made are often quite different. Although some credit men scale down values sharply in the interest of conservative credit appraisal, most credit men analyze the Balance Sheet in order to determine facts upon which adequate appraisals of credit can be made for the purpose of attaining the greatest sales volume possible with safety.

But, if the preparation of Balance Sheets is an art, or profession, why does the credit man find it necessary to tear them to pieces and to reconstruct them before they are usable? When he purchases a new automobile he does not tear it apart and put it back together again before he utilizes its facilities of transportation.

The answer is simply this—the practice of preparing Balance Sheets is so befuddled with hypotheses such as methods of depreciation and amortization, methods and opinions as to valuation of inventories, methods of valuing receivables, valuations of investments, inclusions of fantastic values for patents, goodwill and other intangibles, varying methods of considering prepaid expenses and others. Consequently, the credit man must protect himself by doing some hypothecating in his own behalf.

The investment creditor is confronted with the same problems except in cases where the search for the real facts of value are even more mysterious.

Of the many cases like Kreuger and Toll, Bank of United States, H. A. Stone & Co., and others, the Balance Sheet of the Middle West Utilities Company furnishes a sadly excellent illustration. On the Balance Sheet submitted as at December 31, 1931, total assets were reflected in the amount of $304,193,481. Eighty-eight percent of these assets were represented by one item—"Securities and other Investments, $266,996,211."

In order that the investment creditor might know the exact condition of the finances of this corporation, ELEVEN MAGIC WORDS were employed as an accompanyment to this Balance Sheet, as follows: "Note—Investments carried at values determined by the Board of Directors." Magic words that many times spell the difference between solvency and insolvency. However, the magic of these words did not long hold their spell because the next financial statement made public was as of April 14, 1932, prepared *for the receivers* of this corporation.

The inadequacies of Balance Sheet preparation of this statement were so evident that, notwithstanding the fact that recognized accounting procedure was followed in its preparation, press comment appeared as follows: "It (the April 14th Statement) lists $308,505,713 of assets, but in most instances these are put down at 'book-value' instead of at liquidating value so that the stockholders—98,870 of Middle West and 282,309 of its subsidiaries—will be unable to estimate from it the solvency of the corporation or obtain an indication of the probable disposition of the properties."

Is it then so strange that Balance Sheets are on trial?

The writer in attacking this problem offers the foregoing remarks and criticism as bases for constructive suggestions and improvements in the practice of accounting and preparation of financial statements adequate for the sound appraisal of trade and investment credit.

The credit man in his consideration of financial statements is necessarily more of an economist than an accountant. He must deal with the facts of value and should not need be concerned with the mechanics of reflecting the facts. That is the function of the accountant. However, the fact that the credit man must delve into the matter of determining his own facts as he must do in many instances, indicates that the accountant is not performing his function. There is just where the trouble lies. The science of accounting and the science of economics are not sufficiently correlated.

The accountant, then, must recognize the principles of economics in his preparation of financial statements and must replace many of his hypotheses with the principles of economics.

Tracing the origin of the Balance Sheet, it is found that a Balance Sheet is merely a rearrangement of the trial balance which has been in use since the thirteenth or fourteenth century. The first audit of record was in the year 1721, an audit of the English South Seas Company. The science of economics, however, had its origin in the year 1776, with the treatise written by Adam Smith. That first treatise merely suggested a basic principle of determining the condition of value of items of capital wealth by classifying those items of wealth expected to yield a revenue to their owner as either "Circulating" or "Fixed." The accounting profession has adopted this classification with the substitution of the term "Current" for the term "Circulating"—*EXCEPT* that it has not limited such classification to just those items expected to yield a revenue to the owner.

The development of the principle of "Circulation" as a measure of value was accomplished a century or more later by Karl Marx and other economists. This development lies in the theory advanced that a "Fixed" asset actually in use by its owner in creating value in other forms is a "Circulating" value. This principle was not adopted by the accounting profession as a revision to the principles set forth by Adam Smith and this writer is the first accountant to apply the principle of "Circulation" as a basis for preparation of financial statements for the purpose of reflecting economic values.

The principle of the "Circulation" Theory, simply stated, is that all capital values in use by the owner are "Circulating" values and those not in use are "Non-Circulating" values. Thus, in applying the principles of the "Circulation Theory" to the preparation of financial statements, the component items must first be classified as to their status of "Circulation." The "Circulating Values" represent the actual working capital, which is then divisible into two further classifications—Current Working Capital and Fixed Working Capital. Thus a skeleton financial statement would appear as follows:

1. Circulating Values;
    - A. Current Circulating Values,
    - B. Fixed Circulating Values.
2. Non-Circulating Values;
3. Total equals Net Worth per books.

Inasmuch as the Liabilities must be classified as well as the Assets which they follow, the skeleton financial statement develops as follows:

1. Circulating Values;
    - A. Current Circulating Values, Less Current Liabilities, Represents *Current Working Capital.*
    - B. Fixed Circulating Values, Less Fixed Liabilities, Represents *Fixed Working Capital.*
    - TOTAL — Represents *Entire Working Capital.*
2. Non-Circulating Values: Less All Reserves or Allowances for Losses, Represents *Non-Working Capital,* or the Risk in the Realization of Capital Value.
3. Total Net Worth per Books.

A financial statement prepared by the application of the "Circulation Theory" is submitted with this article, but the space required does not permit its detailed discussion in this treatise.

After establishing this form of skeleton for a financial statement, the question of value must be considered. The establishment of an item of wealth as a "Circulating Value" is subject to two measures.

First, as stated (*Continued on page 35*)

STATEMENT OF FINANCIAL CONDITION

December 31st, 1930

CURRENT CIRCULATING VALUES			
Cash on Hand		$ 50.00	
Cash in Banks		2,582.13	
Accounts Receivable, collectible		25,815.28	
Salable Inventories at replacement values		18,557.15	
Investments, at market values		6,585.95	
Prepaid Interest and Insurance		317.50	
Total		53,908.01	
Less: Current Liabilities			
Accounts Payable	$ 9,858.26		
Notes Payable—Banks	2,850.00		
Notes Payable—Others	5,000.00		
Accruals	515.50		
Mortgage Payment due within one year	2,500.00		
Total		20,723.76	
Current Working Capital			$33,184.25
FIXED CIRCULATING VALUES			
Warehouse and Office Building and Land, Book value $45,115.00 present value		32,500.00	
Fixtures and Delivery Equipment, Book value, $8,256.50; present value		4,515.00	
Total		37,015.00	
Less: Mortgage Payable, due after one year		15,000.00	
Fixed Working Capital			22,015.00
Total Circulating or Working Assets		90,923.01	
Less: Total Liabilities		35,723.76	
Total Working Capital			55,199.25
NON-CIRCULATING VALUES			
Cash in Closed Bank		787.53	
Uncollectible Accounts Receivable	9,455.10		
Less: Reserve for Bad Debts	5,300.00		
		4,155.10	
Unsalable Inventories		4,268.10	
Unabsorbed Depreciation:			
Real Estate		12,615.00	
Fixtures and Equipment		3,741.50	
Investments, cost	10,150.00		
Market value	6,585.95		
		3,564.05	
Total Non-Circulating Values			29,131.28
TOTAL NET WORTH PER BOOKS		-	$84,330.53

Handled with care

Here is a challenge to investment bankers. Can they duplicate a record of this kind? Is this record duplicated anywhere in the country? Consider this statement carefully. A total of approximately one million dollars, invested from 1925 to 1933 in securities without the loss of a single dollar!

Mr. William H. Pouch, former President of the N. A. C. M. and Chairman of the Advisory Board of the Credit Protection Fund, in consultation with Mr. W. F. H. Koelsch, also past President of the Association, bore the responsibility of investing these funds. To them we offer our hearty appreciation for the ability and keen judgment made manifest in the execution of their trusteeship.

Henry H. Heimann, Executive Manager.

by K. W. FRASER,
Fraud Prevention Dept.,
N. A. C. M.

Suppose you had been entrusted with a fund, prior to October 1929, which was to be liquidated over a period of five years and, during your tenure as trustee, was to yield a respectable return.

Suppose you had planned your investments so that a certain amount was to be liquidated each year; but, due to the unforeseen, you were forced to liquidate your holdings intermittently before maturity in an inclement market. Could you then have shown a *net* yield of better than 4½%? That is the admirable and enviable record made in handling the Second Credit Protection Fund.

To understand the origin of this investment account, let us turn back the pages to 1925 and sketch as briefly as possibly the financial history of the Fraud Prevention Department (nee Credit Protection Department).

To finance the Department's activities, funds were first raised in 1925 on a subscription basis. At the expiration of that fund in 1929, the subscription method again served its purpose in refinancing the Department.

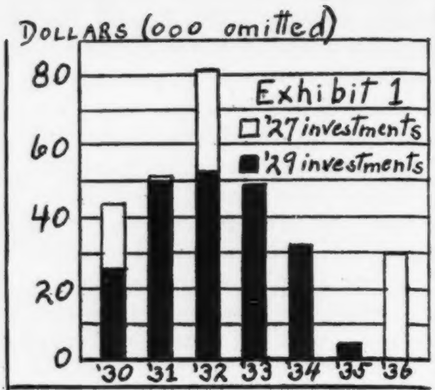
Under the subscription method of raising money, funds were gathered at the beginning of the period which were to carry the Department for a period of years. But as the fund was to be tapped only at such intervals as the need for ready cash arose, the problem of investment came into existence. However, before analysing the investments, it is necessary to point out several salient factors.

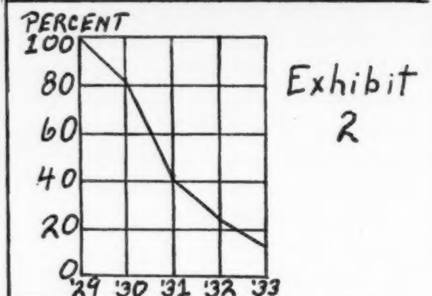
First—the merging of the funds. It is impossible to give a clear picture of the investment experience if any attempt is made to segregate the funds. Investments held in portfolio at the expiration of either fund were transferred to the new set-up and incoming cash applied against current expense. Thus, when the 1929 fund expired in January 1932, part of the income from new contracts was used to purchase at original cost the portfolio extant at that date, the cash so provided being used to cover the expenses incurred in closing out the cases then on hand. But it is seen that the portfolio was still existent.

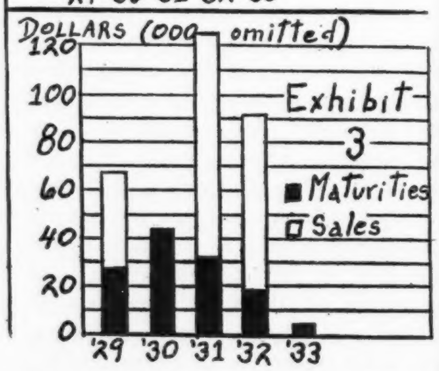
Second—the amount raised from the 1929 campaign. Although it was planned to have it last for five years, the fund fell short of its goal by 50%. Inasmuch as the investments made had contemplated a five year liquidation period, and since the amount of money raised was but half of the proposed total, it became necessary to cut into the portfolio from time to time in order to raise cash. In an unstable and depreciated market, this was indeed a severe handicap.

The total of funds available for investment totaled approximately $1,000,000. How were these Funds handled? To answer this question, it is advisable to divide the investments into three groups; 1) Liberty Bonds and Time Deposits; 2) Call Loans; 3) Railroad Bonds.

Liberty Bonds and Time Deposits. Safety and extreme liquidity were of prime importance in 1925. There was no way of definitely predetermining the probable expense of operating the Department. There was no basis of past experience for estimating its probable needs and exigencies. For these reasons,





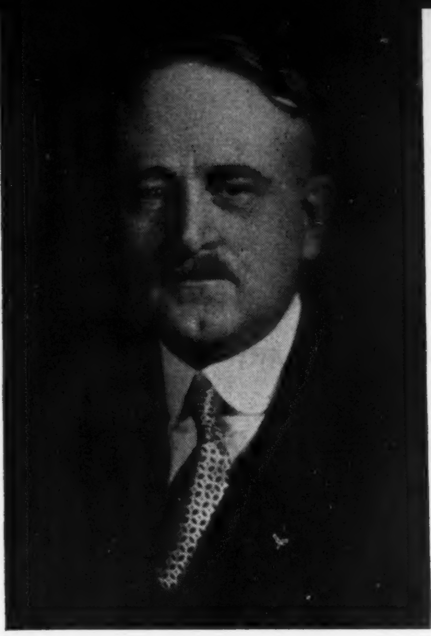


In above exhibits, all representing Railroad Bonds, No. 1 pictures portfolio maturities as of Dec. 31, 1929; No. 2 realized maturities to amount planned; No. 3 income from liquidation of securities.

safety and liquidity were the foremost essentials in any investment program at that time.

About time deposits, little need be said. The interest rate is nominal, yet the deposits are well protected, easily accessible, and are not exposed to depreciation.

Aside from the balance of time deposits, $404,514.73 worth of Liberty Bonds were purchased during 1925. The following year, an additional $50,710.94 was invested in Governments, bringing the total of such investments to $455,225.67. These securities were sold in the following manner: 1926, $202,296.88; 1927, $176,335.03; 1928, $25,515.63, and 1929, $51,078.13. Probably the only feature of particular note is the fact that a trading loss of $2,327.20, equivalent to .51% of the volume of bonds bought, was suffered. Of this loss, $1,750.00 can be charged to 1926 operations. (*Continued on page 29*)



Left: WM. K. ADAMS, Milwaukee Convention Chairman. Right: R. S. SHANNON, Pres. Milwaukee A. C. M.

Meet in Milwaukee!

by BRACE BENNITT, Convention Director, N. A. C. M.

The 38th Annual Convention of the N. A. C. M. and the third Credit Congress of Industry will be held in Milwaukee, Wis., the week of June 18th. It is fitting that we meet in a city and in a state which has been outstanding in meeting the trying business and economic problems of the past years. We will be in the atmosphere of sound thinking and constructive progress. While we hold our convention in Milwaukee, we will in reality have as our hosts all the Wisconsin Associations which are combining to make most enjoyable and successful this climax of our Association year.

Milwaukee was one of the first hosts to the National Convention, having entertained it in 1900. Some few of the Old Guard still recall this Convention and speak of it in glowing terms.

We are again most fortunate in having exceptional leadership. Will K. Adams, Convention Chairman, is best known to the credit fraternity, at present, as our National Director from that area, and is also known in his prominent business capacity as Vice-President of the First Wisconsin Bank. With Mr. Adams in the Convention work will be associated other men of comparable fitness who will head the various committees, and the entire Wisconsin membership is already constituting itself a committee-of-the-whole for the Convention.

James G. Romer, Secretary-Manager of the Milwaukee Association, one of our veteran Managers in point of service, will be a most able right-hand man to the Convention Chairman and Convention Director.

Convention plans of course are already under way, your Convention Director having met with the Milwaukee people and with them developed the preliminary activities. There is the enthuiasm ever present in the Convention Committees the host associations that is particularly noticeable this year. It augurs well for a happy and valuable time the week of June 18th.

Again this year we have made arrangements which we think are vital to a successful Convention—to house the Convention under one roof. We are particularly pleased with the arrangements made with the fine Hotel Schroeder so that not only can we hold our Convention sessions there and the sessions of Credit Congress of Industry, but we have assurance of ample room space for all visiting delegates in Convention headquarters hotel. The management of the hotel has in every way indicated its entire co-operation.

JAMES G. ROMER, Sec.-Mgr., Milwaukee A. C. M., 1933 Convention Hosts for N. A. C. M. Delegates.

The program and the entertainment of the Convention are merely in the formative stages as it is too early to get definite comment from those people who we desire to have appear as speakers or to make absolute arrangements for the entertainment part of the program. Suffice it to say in this preliminary article that the strings are already out to again obtain a list of speakers of the calibre that have contributed to our programs in past National Conventions. Some slight delay may be expected this year in definite commitments due to the change in national administration as we expect outstanding governmental figures as well as business executives to make up our program.

The Credit of Congress of Industry continues to grow in interest and value. Again a whole day of the Convention will be devoted to the industry groups, a phase of our Association activity that grows month by month. Credit Congress Day is tentatively scheduled for Tuesday, June 19th, and will be under the direction of Philip J. Gray, Manager of the N.A.C.M.'s Chicago office. Many of our Credit Groups through the country are already making plans for a maximum attendance (*Cont. on p.* 31)

Eternal triangle

■ Suretyship, Guaranty, and Original Undertakings cause more confusion than any other subjects.

by MAURICE FINKELHOR, Pittsburgh, Pa.

Writer's advance note: This article covers substantially the talk that was given by the writer before the Credo Club of the Credit Association of Western Pennsylvania. Its purpose was to give some interesting lights on the subject, and not to cover the topic in any detail. Furthermore, the talk being delivered in Pennsylvania, the subject was discussed having Pennsylvania law in mind. In general, the law here given will correspond with the law in other states, but as will in most cases be pointed out, there are some distinct variances in Pennsylvania from those of a great many other states.

Sing a song of suretyship, and you will be guaranteed the greatest of confusion in return. For whether we treat the matter lightly or seriously, one can conservatively say there is more confusion in distinguishing among Suretyship, Guaranty, and Original Undertakings, all closely allied, than there is in distinguishing between any other affiliated or non-affiliated subjects.

It is not only in the marital question that we are troubled with the "eternal triangle", but as indicated above, the triangle is always perplexing in distinguishing among Suretyship, Guaranty, and Original Undertakings. One could almost wish that all obligations of this sort were Original Undertakings. This is so, because they need not be in writing, and because the creditor need not pursue, or even make demand against the party, in fact, receiving the merchandise, or consideration. But not to get ahead of my subject, I should first tell you what an Original Undertaking is. This occurs, where a creditor, not desiring to advance credit to the party who is to receive the merchandise or consideration, asks to be assured of payment, and the third party, whose credit is satisfactory, steps forward and states, "Bill me for the goods." The goods are shipped to the consumer, and recourse is had against the third party as soon as the bill is due, without any pursuit or demand, as stated above, against the party receiving the consideration. The law holds that such a transaction is an Original Undertaking by the third party to pay the bill, which is the same as if he were buying the goods for himself, and the creditor has nothing to do with the actual consumer. Therefore the obligation does not have to be in writing because it is the third party's personal bill, and has been so billed to him.

However, in the majority of cases, the situation is not like this, and the third party is promising to secure the bill of the consumer, or party receiving the consideration, provided said consumer does not pay the bill, or is unable to pay the same. If it is a case of "does not pay the bill", then it is one of Suretyship, and if it is a case of "cannot pay the bill", then it is one of Guaranty. In other words, the surety answers for the default of the real debtor immediately on notice of the default given by the creditor, and he may be sued alone immediately on such default by said debtor, without creditor pursuing the debtor in any way. In the case of Guaranty, the guarantor guarantees the ability of the debtor to pay, and his inability to pay must be first determined before recourse against the guarantor. This is determined through the bankruptcy of the debtor, his insolvency, or through the creditor pursuing him through legal proceedings and being unable to secure payment. It is only after such methods prove of no avail in collection, that the guarantor can be proceeded against. In both cases of Guaranty and Suretyship, under the Statute of Frauds that prevails in practically every state, the agreement must be in writing. In Pennsylvania we have the exception that these agreements must be in writing where the amounts involved are over Twenty ($20.00) Dollars.

Pennsylvania has an Act of Assembly in this respect, which does not appear to be enacted in other states. The Pennsylvania Act provides in substance, that every written agreement to answer for the default of another, shall subject said person entering into the same, to the liabilities of suretyship, unless such agreement shall contain in substance the words, "this is not intended to be a contract of suretyship." In other words, under the Pennsylvania Act, there can no longer be a contract of guaranty, but all will be construed as those of suretyship, unless it is specifically stated that there is not intended to be a contract of suretyship. This means, regardless of whether the word "guaranty" is used entirely throughout the writing, it is still a contract of suretyship unless the contrary is pointed out, by specifically saying that the contract is not to be one of suretyship. In this manner a great deal of confusion is eliminated in Pennsylvania, because practically all of the contracts will resolve themselves into suretyship contracts.

As regards the surety, the obligations of the creditor to the surety are practically nothing. The creditor need not pursue the debtor at all, and need not communicate to the surety anything concerning the debtor's condition, but may idly sit back until default and then pursue the surety. There is only one saving clause in Pennsylvania for the surety, and that is, if the surety gives written notice to the creditor and furnishes the creditor with the costs, he may force the creditor to pursue the debtor. In case the creditor refuses to do this, this will only discharge the surety where the debt might have been collected by a suit against the debtor at the time of the request.

In the case of a guarantor, the creditor must pursue the debtor with due diligence without demand from the guarantor, and must give the guarantor immediate notice of default. If the creditor does not do these things, the guarantor will be released unless the creditor can prove that the guarantor was not damaged in any way as regards the debtor, through the creditor's negligence or refusal to proceed.

Collateral is another item which

comes into consideration in this respect, and the creditor is not required to exhaust the collateral before proceeding against the surety. His only obligation is not to turn over the collateral to the debtor, if it be the debtor's collateral, unless he has been paid by the debtor. If he is paid by the surety, then the equities of the matter require him to turn over the collateral to the surety so that the surety may minimize his loss.

With regard to the guarantor, the creditor must pursue the collateral with due diligence to minimize the loss of the guarantor.

One must be careful, as one generally should be in all legal matters, that the matter to be secured is done by a person having due authority. For example, in a corporation, it should be an officer, and if it is only done by a mere representative, it should be determined if the representative is duly authorized to execute the contract of suretyship, or else it should be proven that the corporation to become the surety, has previously recognized the contracts of suretyship entered into by such representative. In Pennsylvania there are still common law limitations as to a married woman, and these prevail in some of the states, though in general this limitation has been removed. In the Keystone State, a married woman cannot become an accommodation guarantor or surety for another. Therefore, one here may be only safeguarded by seeing that the consideration directly passes to the married woman, so that the suretyship is not of accommodation, oherwise the contract of suretyship here will fail. With infants, meaning by that not only those five or six years of age, but one to twenty-one years of age, the contract of suretyship may be disaffirmed at their majority, and it may be only affirmed if the infant is first apprised of the fact that he has a right to disaffirm the contract. In a partnership, one partner may bind the entire partnership if it is in the course of the partnership business, or if the partner is authorized to bind all of the partners to this suretyship contract.

Looking back for a minute to the corporation, although in the state of New York there is more leniency about a corporation becoming a surety for the debt of another, in other states the general law is that it is beyond the power of a corporation to become surety for the debt of another, and only some exception, as a subsidiary corporation or the fact that there was some consideration moving to the corporation, could bind the corporation as surety for the debt of another. Of course trust and guaranty corporations, organized for this purpose, can do this, because it is their business. Commenting a moment again on New York, the corporation can, with the consent of the stockholders, where the rights of creditors do not intervene, extend its credit and advance money to a third party manufacturer, looking for reimbursement out of the goods to be manufactured and delivered to it by said manufacturer. A New York corporation may likewise guarantee the lease of a manufacturer who is furnishing goods to the corporation.

Ordinarily the contract of Guaranty and Suretyship does not guarantee the amount specified in the agreement, forever and ever, by the guarantor or surety. To be precise, if the contract is for the sum of Five Hundred ($500.00) Dollars, and the debtor pays this off, then the contract of suretyship or guaranty is terminated, unless, and only unless, it states that the contract shall be one of continuous guaranty or suretyship. Where there is a stipulation of continuity, then the liability of the surety or guarantor will continue for the amount specified in the agreement.

This burden that the guarantor or surety has assumed does not terminate with death, as other troubles might, but the liability will continue against the estates of these parties.

However, to fully protect the creditor who is looking to secure his account, the contract should contain a waiver of notices by the surety and guarantor, as to notices of default modification, extensions granted the debtor, and renewals. This is wise, because, as to a surety, if there is an extension, modification, or renewal of the agreement without his consent, the suretyship is terminated. Likewise as to a guarantor, if there is an extension of time without the guarantor's consent, and this prejudices the guarantor, he is thereby also released.

The distinction between suretyship contracts, and those of original undertaking, often comes down to a game of tricks, or play with words. Under Pennsylvania construction, if a third party states, "I will pay the bill", this is an original undertaking, but if he says, "I will see that the bill is paid", this is one of suretyship. In the latter case, the idea being that if one sees that a bill is to be paid, this is answering for the default of another as a surety, and not being a party to an original undertaking, as where one says, "I will pay the bill", because this makes the same his own obligation. From the very nature of certain transactions, some become contracts of suretyship, while some are original undertakings. If the owner, or principal contractor, states to a supply man that he will pay for goods supplied to the sub-contractor, this is an original undertaking, for the reasons given above, and as well for the reason that it is to the interest of the contractor to see that his sub-contractor is supplied with the necessary materials to complete the building. We have the same situation with a mortgagee stating to a mechanic's lien party, whose lien would be prior to that of the mortgagee, that if the mechanic's lien-man does not record his lien, the mortgagee will pay the bill of the lien-man. The mortgagee has an interest in wishing his lien protected from any priorities against the same. However, if a contractor states to a material man that he will see to it that the bill of the sub-contractor is paid out of the money in the contractor's hands coming to the sub-contractor, this is a suretyship, and must be in writing. This is explained by the fact that the language used is, "will see to it", and from the fact that the contractor is offering to pay, not out of his own funds, but simply from a fund out of which a sub-contractor has some money coming to him.

Another interesting case of original undertaking is, if a party buys a stock of merchandise from another, and agrees to pay the debts of the vendor. This is considered an original undertaking and need not be in writing. This ordinarily conflicts with the principal that where one promises to pay the debts of another, the same should be in writing, and should be a contract of suretyship, but here the courts hold that this is part of the consideration.

Again we are confronted with other difficulties as pertain to a corporation. The promise of stockholders or directors to pay the debt of a corporation, cannot be an original undertaking, but is simply one of suretyship. There is only one case to the contrary, and that is where stockholders and directors are trying to salvage their interests in a corporation, and they (*Cont. on page 32*)

Reel bookkeeping

First manual, then machine, now movie

In the past thirty years we have had many improvements and economies in methods . . . single entry and double entry in sequence. Today we are familiar with the term "bookless bookkeeping."

"The high desk and stool will continue to be obsolete . . . machine methods will continue to improve."

by L. G. ANDREWS, Strawbridge & Clothier, Philadelphia, Pa.

The present trend of the times requires far different thinking and a much broader viewpoint on office routine than was held even two years back. We hear it stated that, since last year's volume is comparable with that of 1917 and 1918, it is high time to resurrect the old standing desk and high stool of that time and, "taking our pen in hand", get busy.

It is true that many extravagant operations installed during "prosperous days" have long since been eliminated and possibly each of us is still clinging to some particular pet plan or method endeavoring to make a sound decision as to whether it should be junked as an extravagance or continued as an essential.

With particular reference to the operation of recording the transactions entered into by our charge customers (as long as we have charge customers) there will continue to be a necessity for the carrying on of this routine. Looking back for the moment over the last thirty years, there have been many improvements and economies introduced in bookkeeping methods. We have had in sequence, single entry and then double entry. First the operations were performed manually with pen and ink and later with much greater speed and economy through the use of typewriters and finally continued with the present day improved bookkeeping machines.

Today we are familiar with the term "bookless bookkeeping" and each of us with the aid of modern improved mechanical equipment are finding ways and means of making one recording on a single piece of paper serve all necessary purposes where formerly duplicate, triplicate and oftentimes many more copies of the original record were produced. We overlook the fact that the extra copies require additional labor to handle, sort and file and also that the extra stationery and carbon paper are costly. We satisfy ourselves with the thought that little or no more labor is involved in typing a duplicate or triplicate, therefore this method is a labor saver and in addition, is much faster than former methods.

Before the subject becomes too involved in the details of photography, let me offer this prediction; that in my opinion the high desk and stool will continue to be obsolete and in disuse no matter what trend the sales volume takes. Also that machine methods will continue to improve, producing many unheard of labor saving devices.

Taking up the subject of bookkeeping methods relating to charge customers' accounts, the method in use in our store prior to the adoption of the single bill and photograph system, involved a single copy customer's statement form used in connection with a continuous ledger sheet operated under the unit posting plan.

The continuous ledger sheet was the only office copy of the customer's statement and was in constant use in the Bookkeeping Department. It also was the source of customer information for the Credit and Adjustment departments. A pre-audit of all charges and credits established by the Sales Auditing Department provided the billers with predetermined controls of all posting media. Each biller was required to prove her own work and the individual controls of all billers were set up into a master control.

The operator adjusted the bill in the bookkeeping machine to the proper position so that the item would be recorded immediately below the previous registration both on the customer's statement and also be duplicated on the continuous ledger sheet through the medium of a small piece of carbon paper. The carbon paper was alternated for debits and credits by using black and red colors.

There has always been quite some doubt in the minds of various "methods" men as to how much lost time is involved in the billing operation of collating in the billing machine the three pieces of paper, namely: the customer's statement, the carbon paper and the ledger sheet. This operation may be shortened to some extent by using a fold-over bill with a full sized piece of inexpensive carbon paper "stuffed" in advance in each customer's bill. However, this method involves additional handling, sorting, filing and storage of the duplicate statements and does not provide a continuous ledger sheet.

It has been proven by comparison of production figures, that the machine operator can post considerably more items on the fold-over bill plan as against a continuous ledger plan. On the other hand it has never, so far as I can learn, been definitely proven that the saving made on the machine operation is not entirely absorbed in the additional cost of handling the duplicate copies of the statements.

The photographic method which our store has now adopted, has the added advantage of machine operator speed without the costs of additional handling and storing the duplicate copies of the customers' bills.

Under the new system, statement posting follows a routine similar to that previously used. The pre-audit control is maintained and each posting clerk is required to prove her own work. The ledgers are not stuffed for posting. Postings are made daily to affected accounts and the controls are handled just as they were under the old system.

The equipment used in this operation includes a photographing unit and a projector unit. The photographing operation is exceedingly rapid. It is only necessary to drop the statements into the feeding hopper of the Recordak where they are automatically photographed and ejected into the receiving hopper in their original order. Production records show that fifty-five bills per minute can be photographed in this manner.

The pictures are made on narrow width safety motion picture film, photographs of 4,000 statements being made on a 100 foot reel of film. Photographed in this manner, pictures of 4,000 statements are housed in a space only 4 inches wide, 4 inches high and one inch in thickness. Two duplicate reels of pictures are automatically made by the Recordak. One set of these pictures is used by the Adjustment Department. The second is retained in a safe, thus protecting the store from a possible loss of its Accounts Receivable records through fire or from misplacing any portion of the records.

A small compact projector is provided which enlarges these pictures up to original size for reading. As the statements have been photographed in ledger order, the finding of any individual bill is a simple matter. Experience has shown that a bill can be located on the film more rapidly than in a binder.

At the time experiments were started with the Recordak, our office organization proceeded cautiously. No great expense or erratic system changes were involved in the trial. The same billing equipment and customers' statements were used. For the time being, the continuous ledger system operated as usual; the only change being that the customers' statements were photographed at the end of each month before mailing. The reels of film were forwarded to the laboratory in New York, developed over night and returned the next morning.

The projection machines were set up and a clerk installed to service any requests for customer information recorded on the particular reel of film. Considerable criticism was heard from tracing and adjustment clerks. The enlargements were not always clear. The angle at which the enlargement was projected made it difficult to read. What will happen if a statement is mailed without being photographed and many other questions were asked. The method being a new one, produced the customary amount of comment and queries. However, after the newness wore off the equipment gradually became just another piece of office machinery.

After a few months of experimenting it was finally decided to step off into deep water. The fear of a new departure was surmounted and at the starting of last June's business, 9 ledgers, involving some 30,000 accounts were installed under the photographing method. This system change involved the serious undertaking of discarding the continuous ledger sheet which was the only office copy of the customers' monthly bill and relying entirely on the film projector for information regarding the customers' purchases. Our office organization was quite nervous and tense after the first release of customers' statements had been made. What if something had gone wrong? Possibly all the bills had not been photographed. Perhaps the film might be destroyed in developing or even lost while away from the store. To our surprise, nothing out of the ordinary happened. The particular ledgers were readily balanced from the statement stubs and everything was satisfactory.

From the New York World-Telegram.

BILLS PHOTOGRAPHED BY NEW "RECORDAK"

Device Saves Filing Space for Users.

By the United Press.

PHILADELPHIA.—Science's latest contribution to a Philadelphia department store threatens to break up happy homes where housewives —or husbands — sometimes stray from the straight and narrow when it comes to balancing the family budget.

The menace to marital bliss is a space-saving device adopted for photographing bills payable. It is called the "recordak," and is a box-like affair standing four feet high. It is a half-yard wide and is capable of making two photographs of 55 bills in a single minute.

The kind of contraption that would bring jitters of reluctant admiration to technocrats, it has already decreased the number of billers in this store to one-third, and has saved considerable filing space.

Since the purpose of the accounting change was to post to a single form of the customers' statement and to eliminate any additional copies thereof it became necessary to devise a posting medium to be retained after the customer's bill was mailed. The primary purpose of this form was to carry forward the balance to the next monthly statement. A new bill form was designed consisting of a single sheet bill carrying a horizontal perforation three inches from the right side of the form. Space for a double impression of the addressograph plate was provided, one on the customer's statement and the other on the stub. The bookkeeping machine spacing was set to allow for the printing of the new balance at each posting to be recorded on both the customer's statement and also on the stub. Thus, after posting was completed at the close of a billing period, the statements were removed from the binders and the stubs and binding edges cut from the body of the statements by a paper cutting machine. The statements were then photographed by the Recordak and mailed. The stubs which are in account order were used for the very important purpose of forwarding the balance to the next month's bill. A trial balance was obtained from the proof tapes accumulated as the balances were forwarded.

With the elimination of the continuous ledger it became necessary to substitute in its place a credit history record showing in one total the monthly outstanding balance owing on each customer's account. This form is a combination of the credit application and the credit history card and is hand posted. Cash payments are posted to the credit history card daily.

Prior to the Recordak installation, history records were carried only on accounts delinquent four months or over. Posting is now made to the history records before the 10th of each month from the statement stubs. Additional help from all office (*Cont. on page 40*)

Nation-wide collection and sales conditions

What they are at present

The outlook for the near future

CREDIT AND FINANCIAL MANAGEMENT offers its regular monthly survey of collections and sales conditions. It is based upon reports from the associations throughout the country affiliated with the N. A. C. M. The reports are the results of the daily experience of the leading wholesaling and manufacturing concerns operating from these trading centers. The two questions "Are people buying?" and "Are they paying?" are perhaps the most direct and immediate reflection of daily business conditions in the country.

These reports have been tabulated so that you may see at a glance how conditions are reported in various cities in each state, also what cities report a condition of "Good, Fair or Slow." At the end of this summary you will find valuable explanatory comments that have been sent in to CREDIT AND FINANCIAL MANAGEMENT. These additional comments may be pertinent to your interpretation of collection conditions and sales conditions in the cities listed.

State	City	Collections	Sales
Ariz.	Phoenix	Slow	Slow
Ark.	Little Rock	Fair	Slow
Cal.	Los Angeles	Fair	Fair
	Oakland	Fair	Fair
	San Diego	Good	Fair
	San Francisco	Fair	Slow
Colo.	Denver	Slow	Slow
	Pueblo	Slow	Fair
Conn.	Waterbury	Slow	Slow
D. C.	Washington	Fair	Fair
Fla.	Jacksonville	Slow	Slow
Ga.	Atlanta	Fair	Fair
	Macon	Fair	Fair
Idaho	Boise	Fair	Fair
Ill.	Springfield	Fair	Fair
Ind.	Evansville	Slow	Slow
	South Bend	Slow	Slow
	Terre Haute	Fair	Fair
Iowa	Burlington	Slow	Slow
	Cedar Rapids	Slow	Slow
	Davenport	Slow	Slow
	Des Moines	Slow	Slow
	Ottumwa	Slow	Fair
Kan.	Wichita	Slow	Slow
Ky.	Lexington	Fair	Fair
	Louisville	Fair	Fair
La.	New Orleans	Fair	Fair
	Shreveport	Slow	Slow
Md.	Baltimore	Fair	Fair
Mass.	Boston	Fair	Fair
	Springfield	Fair	Fair
	Worcester	Fair	Fair
Mich.	Detroit	Slow	Slow
	Grand Rapids	Slow	Slow
	Jackson	Fair	Slow
	Lansing	Slow	Slow
	Saginaw	Slow	Slow
Minn.	Duluth	Slow	Slow
	Minneapolis	Fair	Fair
	St. Paul	Fair	Fair
Mo.	Kansas City	Slow	Slow
	St. Louis	Slow	Slow
	St. Joseph	Slow	Slow
Mont.	Billings	Slow	Slow
	Great Falls	Slow	Fair
Mont.	Helena	Slow	Slow
Neb.	Omaha	Slow	Slow
N. J.	Newark	Fair	Fair
	Trenton	Slow	Fair
N. Y.	Albany	Fair	Fair
	Binghamton	Fair	Slow
	Buffalo	Fair	Fair
	Elmira	Slow	Fair
	New York	Fair	Fair
	Rochester	Fair	Fair
	Syracuse	Fair	Fair
	Utica	Fair	Fair
N. C.	Charlotte	Slow	Fair
No. Dak.	Grand Forks	Slow	Slow
Ohio	Cincinnati	Slow	Slow
	Columbus	Slow	Slow
	Dayton	Slow	Slow
	Toledo	Slow	Slow
	Youngstown	Slow	Slow
Okla.	Oklahoma City	Slow	Slow
	Tulsa	Slow	Slow
Oregon	Portland	Fair	Fair
Pa.	Allentown	Slow	Slow
	Altoona	Slow	Slow
	Harrisburg	Slow	Slow
	Johnstown	Slow	Slow
	New Castle	Slow	Slow
	Uniontown	Slow	Slow
	Wilkes-Barre	Slow	Fair
R. I.	Providence	Slow	Slow
So. Dak.	Sioux Falls	Slow	Slow
Tenn.	Chattanooga	Slow	Slow
	Knoxville	Fair	Fair
	Memphis	Slow	Slow
Texas	Dallas	Slow	Fair
	Ft. Worth	Slow	Fair
	Houston	Fair	Fair
	San Antonio	Slow	Slow
	Waco	Fair	Fair
	Wichita Falls	Fair	Good
Utah	Salt Lake City	Fair	Slow
Va.	Bristol	Fair	Fair
	Norfolk	Fair	Slow
	Richmond	Fair	Fair
	Roanoke	Fair	Fair
Wash.	Bellingham	Slow	Slow

State	City	Collections	Sales	State	City	Collections	Sales
Wash.	Seattle	Slow	Slow	W. Va.	Parkersburg	Slow	Slow
	Spokane	Slow	Slow		Wheeling	Slow	Slow
	Tacoma	Fair	Fair	Wis.	Fond du Lac	Slow	Slow
W. Va.	Bluefield	Slow	Slow		Green Bay	Slow	Slow
	Charleston	Slow	Slow		Milwaukee	Slow	Slow
	Clarksburg	Slow	Slow		Oshkosh	Slow	Slow
	Lynchburg	Slow	Slow	Hawaii	Honolulu	Slow	Slow

Nation-wide collection and sales comments

ARIZONA: "While we have not yet experienced any improvement in business" reports Phoenix "we believe conditions are becoming such that a small improvement will develop within the next sixty days.

CALIFORNIA: Conditions in San Diego have improved, especially collections, which have been reported good. San Francisco reports a slight improvement in collections, but retail sales are 27% less than a year ago.

FLORIDA: Jacksonville reports the following: "We are supposed to be in the height of our business year now, but things are very quiet—prices on all products are very low. The retail trade in January was fully 25% under that of January 1932. Conditions are steadily getting worse in this territory."

IOWA: Davenport reports five banks failed in Scott County. All banks have closed in Davenport, but a new bank has opened. All banks in Molena and Rock Island have closed over a holiday agreement. Have now been closed for more than a month. Business is demoralized.

LOUISIANA: Conditions in New Orleans are fair, with two sections reporting sales and collections good. No immediate improvements in sales or collections in Shreveport are anticipated. Farming operations in some sections for 1933 are going forward satisfactorily. The oil industry is reported as making but little if any headway due to the recent reduction in the price of oil in Louisiana and proration and reduced prices of oil in the East Texas field. Other industries report no improvement and a number of failures are reported.

MICHIGAN: Jackson reports a slight pick-up in auto part manufacturers outside of Ford.

MINNESOTA: A slight improvement in collections has been noted in Minneapolis for the months of January and February as compared to a year ago. Long time credit, secured paper, particularly farm implement contracts and farm mortgages are frozen to the extent that the situation is desperate. However, short time credit, particularly for necessities, is quite generally satisfactory. The cold weather of February and a waiting policy in the trade brings about a slowing up in collections and sales. No measurable improvement can be looked for until approach of more favorable spring weather.

MISSOURI: The merchants in St. Joseph report collections slow due to low farm products prices. Returned checks numerous due to closing of banks. Sales are also slow due to low farm products prices and inability to retire merchandise invoices promptly. Fear regarding bank situation also has held down sales.

NEW JERSEY: Collections in Trenton have fallen off, but sales this year to date exceed those of 1932.

OHIO: Cincinnati reports a slight pick-up in both sales and collections. There has been an increase in the number of chattel mortgages filed in Columbus, many of which are given to creditors for past due accounts. Sales have increased since previous month.

RHODE ISLAND: Collections in Providence are slightly slower than last month. The prices in sales are way down and the volume is much lower.

TEXAS: Very little change has been noted in collections on old accounts in Waco, but collections on current accounts are good. During the last few weeks, an improvement in sales has been noted in Wichita Falls, especially in the department stores.

VIRGINIA: Norfolk reports the following: "Collections present a spotted condition, with an average of fair. Old accounts are still slow. Sales are below last year in both dollars and items. Bookings for spring and summer merchandise small. Fertilizer sales appear to be well below last year."

WEST VIRGINIA: Clarksburg reports "no improvement" in its section of the state.

HAWAII: Honolulu reports collections getting tighter all the time, although much pressure is being used. Sales are slow.

Changes since last month's survey

State	City	Collections	Sales
California	San Diego	Fair to Good	Slow to Fair
	San Francisco		Fair to Slow
Idaho	Boise	Good to Fair	Slow to Fair
Indiana	Evansville	Fair to Slow	Fair to Slow
Iowa	Cedar Rapids	Fair to Slow	
	Ottumwa	Fair to Slow	
Maryland	Baltimore	Good to Fair	
Michigan	Detroit	Fair to Slow	Fair to Slow
	Grand Rapids	Fair to Slow	Fair to Slow
Minnesota	Duluth	Fair to Slow	
Missouri	St. Louis	Fair to Slow	
Montana	Great Falls	Fair to Slow	Slow to Fair
	Helena		Fair to Slow
New Jersey	Newark	Slow to Fair	
New York	Albany	Slow to Fair	
	Binghamton		Fair to Slow
	New York	Fair to Slow	
North Carolina	Charlotte		Slow to Fair
North Dakota	Grand Forks	Fair to Slow	Fair to Slow
Tennessee	Chattanooga	Fair to Slow	
Texas	Dallas		Slow to Fair
	Ft. Worth	Fair to Slow	Slow to Fair
	Wichita Falls	Good to Fair	
Utah	Salt Lake City		Slow to Fair
Virginia	Norfolk	Slow to Fair	
Washington	Tacoma		Slow to Fair

"This month's collection letter"

by J. L. WOOD, General Credit Manager, Johns-Manville, New York, N. Y.

Gentlemen:

Do you include Good Will in your Balance Sheet?

It is common practice in modern business to set up Good Will at the nominal value of $1.00. However, in any reputable and even reasonably successful business, Good Will is an asset which cannot be evaluated in mere dollars.

Do you value your Good Will at only $2.21?

This is not a catch question, but has a definite reference to the fact that you owe us $2.21; and have failed to answer eight letters requesting payment.

Certainly, if there were anything wrong with your charge, you would have told us about it and would have given us an opportunity to correct any error which might have crept into our records. Equally certain, the amount of the bill is so insignificant that there can be no question involved of your inability to pay it.

Of course, the bill is too small for us to continue writing letters about it, and it is even too small to place it in the hands of a third party for collections. Frankly, we cannot afford to write any more letters, and if we fail to hear from you in response to this letter we will merely charge it off as a BAD DEBT. Do you wish us to do this?

And is your Good Will worth no more than $2.21?

The collection letters presented each month in this department are not theoretical model letters. Each letter has been used successfully in actual practice and experience. Only those letters are selected which have brought unusually good returns to their users. By making a few changes in the phrasing of these letters you can adapt them to your own business with the same degree of success that they have brought others.

In order to write an intelligent collection letter, you must know the paying habits of each customer to whom you send a letter. The first prerequisite to successful collection procedure is a Credit Interchange report by the Credit Interchange Bureaus of the National Association of Credit Men. These reports tell you when to collect and how to collect. With Interchange reports before you on each of your accounts, you will attain maximum effectiveness in using the collection letters presented in this department every month.

Send us your best and favorite collection letter for our "collection of collection letters" which we are gathering for readers of CREDIT AND FINANCIAL MANAGEMENT.

A selected series of individual copies of the collection letters which have appeared in CREDIT AND FINANCIAL MANAGEMENT is available upon application to Miss Mary V. Larkin, Manager, Collection Letter Department, CREDIT AND FINANCIAL MANAGEMENT, One Park Avenue, New York.

TAKE

PAYROLL ACCOUNTING

FOR EXAMPLE

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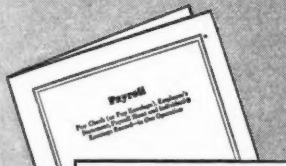
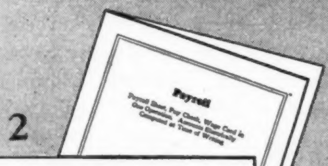


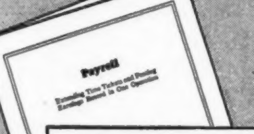
1

In the method described in this folder, four payroll records are made at one time—pay check (or pay envelope), employee's statement, payroll sheet and individual earnings record. All four records in the time ordinarily required to make one.



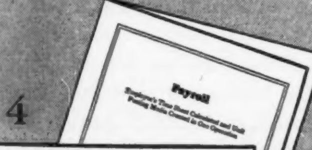
2

This folder shows how earnings are electrically computed at the time of writing payroll sheet, pay check and wage card. Proof totals automatically accumulated.



3

A plan specially designed to speed up the figuring of time tickets in the short interval before the end of the earnings period and pay day. Time tickets extended, earnings record posted and totals accumulated in one operation.



4

This method of calculating employee's time sheet and creating unit distribution media combines in one operation work which commonly requires at least two separate operations.

MAIL THE COUPON

ARE YOUR ACCOUNTING COSTS STILL TOO HIGH?

One or more of these folders may help you lower them

To assist business to take full advantage of the economies made possible by newly developed Burroughs machines and features, Burroughs has prepared a series of folders.

These illustrated, descriptive folders are particularly interesting to executives who would effect still further economies under present-day conditions . . . and, at the same time, would have the work handled with greater speed, ease and simplicity.

The folders shown at the left cover Payroll Accounting and describe several ways to increase production, effect economies and speed up the work. Folders on various other phases of accounting are also available.

Merely indicate on the coupon the folder in which you are interested—or call the local Burroughs office.

Burroughs

Burroughs Adding Machine Company, 6223 Second Boulevard, Detroit, Michigan

Please send me, without charge or obligation, Payroll folders numbered ______
I am interested also in other folders showing improved methods of handling the applications I have checked:

- ☐ Figure Distribution
- ☐ Stores Records
- ☐ Accounts Receivable
- ☐ Billing
- ☐ Accounts Payable
- ☐ General Accounting

Name ______

Address ______

Paging the new books

Reviews of the important books on business, to aid executives whose reading hours are limited.

This month's business book

YOUR NEW INCOME TAX. By John G. Herndon, Jr. The John C. Winston Co., Philadelphia, Pa. $2.00.

If ever a book has justified its selection in these columns as the business book of the month, no other volume so chosen could replace, in a month of mad hares and even more mad income tax return filers, this publication from the "City of Brotherly Love." And a real act of brotherly love it is, indeed, to present such a tome at such a time. Plain, unadorned English, liberal classification and a common-sense procedure make this volume not only easy reading, but also easy reference.

Do you know or realize that there are over 700 differences between the old and the new income tax laws? All of them, of course, won't apply to you or your firm, but you'll need clever footwork and a clear eye to dodge all or even most of the blows sent in your direction by the new revisions and provisions.

Cleverly, the publishers pop a series of questions at you on the jacket, including such points as these:

Do you know "the tax on a $5,000 income of a married person is nearly 500% more this year than it was last year" . . . "some of the taxes you pay are deductible" . . . "12 classes of income are tax-exempt" . . . "when a husband and wife ought to file separate returns" . . . "the extent to which stock and bond losses may now be deducted?"

Continuing along this line, do you know that a mere $50.00 additional deduction will save you the price of this book? An introduction by Thomas S. Adams, Economic Adviser of the U. S. Treasury Department and, we understand, one of the framers of Wisconsin's advanced tax laws, prefaces the work of Dr. Herndon.

Now is the time for all good men to pay their tax and here is the book to show you how to pay no more than is necessary.

—PAUL HAASE

Crime symposium

CRIME FOR PROFIT. Edited by Ernest D. MacDougall. The Stratford Company, Boston, Mass. $2.00.

Symposiums generally fail in so far as there is neither central plan nor coordination of effort to weld them together into a cohesive unit. That complaint may be levelled against this current volume on mercenary crime. Therein contained are twenty-one assays on crime for monetary profit covering such aspects of the problem as "Religion and Mercenary Crime", "Mercenary Crime and International Relations", "Small Loan Usury", etc.

However, the very fact that a group of authors have had the opportunity to express their own views from their own contact with the problem in the many and varied vocations represented adds to the strength of this book. Such a variety of opinions and viewpoints enlarge the scope of treatment of the problem and afford the layman a more complete picture of both why and how financial rackets exist with the accompanying larger number of suggestions as to how the question should be attacked.

The National Institute of Mercenary Crime which has sponsored this symposium has as its objectives the study of the causes underlying mercenary crime; the formulation of a constructive program designed to reduce the volume of such crimes; and the printing and publishing of such reports as pertain to the subject of mercenary crime. This volume is the first of what is proposed to be a series of publications on monetary crime. As stated in the preface, "This book is not the result of serious, scientific research in mercenary crime, but it is in the nature of a preliminary sketch of certain aspects of the problem".

It is hoped that the next book will be somewhat less opinionated, a bit wider in scope (commercial fraud losses, estimated at $430,000,000. per annum are certainly a form of mercenary crime which should be included in any treatment of that subject), and the result of a closer coordination in studying the problem.

—K. W. FRASER

That third party angle

THE COMING OF A NEW PARTY. By Paul H. Douglas. Whittlesey House, McGraw-Hill Book Co., N. Y. $2.00.

We have only recently emerged from an intense political campaign between our two traditional major parties and a host of smaller groups headed by the 800,000-strong Socialists under Norman Thomas. The "outs" are back in power. But who are these "outs", these Democrats to whom our destiny has been entrusted. Are they the Wilsonian Progressives of the war era? Are they dominantly agrarian as in the South or industrial as in the northern sections of the party? Or has there been, as Mr. Douglas suggests in his new book, a "selling-out" of the party to the big business interests? In other words, are both Democrats and Republicans angling for the same prize—support by the industrial and banking interests?

And if this is true, as the tariff stand of the Democrats might indicate, then is there any group of real or potential strength available for the expression of the needs of the farmers, the laborers, and the white-collar class?

Do they need a new party or should they bore from within and capture an existing party with its prestige and machinery already established?

To such questions and a dozen others, Mr. Douglas brings the light of his investigations and his conclusions. Prominently connected with the League for Independent Political Action, he has an authoritative background and his work is a stimulating analysis of our present parties and the possibilities for a new party. His conclusion points to an independent progressive - farmer - labor party, but whether or not you accept his answer the problem he poses and the manner in which he builds his case are absorbingly enlightening.

—PAUL HAASE

Among those present:

CASH VERSUS CREDIT. By Henry Rawie. Dempsey & Campbell, Portland, Ore. $.25.—A little booklet of little importance.

OTHER PEOPLE'S MONEY. By Louis D. Brandeis. F. A. Stokes Co., N. Y. $2.00.

After you have read this new edition of Justice Brandeis' opinions of banking practice, you will realize more fully the keen foresight possessed by this liberal and influential member of the Supreme Court. Although originally written two decades ago, the statements made here concerning the use of "other people's money" ring remarkably true today.

Norman Hapgood's original foreword is supplemented by a second in which he presents a well-deserved eulogy of Mr. Brandeis and his humane business philosophy.

THE 18th AMENDMENT AND OUR FOREIGN RELATIONS. By Robert L. Jones. Thos Y. Crowell Co., N. Y. $1.75.

We have been doing so much debating, with all the usual vociferation and gesticulation, about Prohibition that most have heard only one side of our domestic arguments. Few have heard both sides. Who, however, is aware of a foreign aspect of Prohibition?

Twelve-mile treaties are one of the symptoms of the way our noble (or ignoble, as you will) experiment has affected our relations with other nations. Here is the first volume on the subject to appear. Actual treaties are included in appendices. Mr. Jones, who is connected with the University of Pittsburgh, has prepared an important factual work for present and future reference.

DIRECTORY OF DIRECTORS. Directory of Directors Co., N. Y. $25.00.

Here is a directory that can be of assistance as a credit guide for there is undoubted value in knowing such facts as are implied from interlocking directorates, Especially valuable is such a well-indexed volume for checking the personal background of officers connected with credit-seeking firms. It is manifestly a difficult task to review a directory, so we ask you to accept the statement that this directory is one of a few essentially valuable books for the desk of any credit executive.

This 24th edition is a remarkably complete and well-edited volume. It carries an alphabetical list of directors or trustees or partners of all important firms in New York, including banks and insurance companies. A new section, "Leaders in their lines," also appears.

ORGANIZING AND FINANCING BUSINESS. J. H. Bonneville and L. D. Dewey. Prentice-Hall, N. Y. Complete in scope, with good chapters on credit and insurance.

PRINCIPLES OF FINANCIAL AND STATISTICAL MATHEMATICS. Maximilian Philip. Prentice-Hall, N. Y.—How to apply mathematics to business problems.

THE CONSUMER. By Walter B. Pitkin. McGraw-Hill Book Co., N. Y. $4.00.

It is Mr. Pitkin's conclusion that the consumer is not the docile entity he is usually said to be, that he influences mightily in his unorganized way the forces of productive enterprise and that he must be reckoned with in any scheme of industrial policy. Observation, research and analysis have helped Mr. Pitkin, who is a facile and engaging writer, to state his case and draw his conclusions. This is a study about an economic factor too often disregarded by the students of our economy.

Mere man

By R. C. Brown, C.P.A.,
Meridian, Miss.

When nights are long, the lucky bear
 Deep into slumberland can go,
Safe and secure within his lair
 He waits for spring, and sucks his paw.
The 'gator in his native swamp
 Prepares to take his long repose,
Nature supplies his every want,
 He beats depression by a nose.
The red squirrel in his hollow log
 Dreams of a fragrant summer day.
And in his hole the old ground hog
 Can doze, and while the time away;
'Til Nature bids all things awake,
 And decks with verdure green the bough,
Her bounty gives that each may take,
 As fair fields yield them to the plough,
All nature rests and gathers strength,
 While man his cranium racks,
For schemes by which he hopes, at length
 TO BEAT HIS INCOME TAX.

—The Certified Public Accountant.

Handled with care

(*Cont. from page* 18) Yet amortizing the total trading loss in determining yield, the net yield figure amounts to approximately 3.9%.

Call Loans. Taking advantage of the extremely high rate on call loans, it was possible to earn 7.65% net between August 1928 and October 1929. The speculative mania which pervaded the atmosphere during those gusty days is well reflected in two items; one, the gradual increase in the call loan rate, and two, the height to which this increase travelled.

Consider the call loan. It is a loan which can be called at any time. Should the borrower be unable to repay, the loan has been amply backed by collateral which the lendor can easily turn into cash. Considering these facts, let us see the market rates for call loans:

The first money placed in this type of loan amounted to $75,000 and was outstanding for the entire month of August 1928 yielding a net of 6.43%. From October 1928 to February 1929 $100,000 was on call, and in keeping with the increased demand for such loans, the yield rose to 7.16%. Nothing was outstanding again until April when $100,000 was put into the market and drew interest until October. Over this last seven month period, the interest return amounted to 8.01% net on a loan that was callable at any time and was backed by collateral, the market value of which exceeded the amount of the loan. Note the increase of the average yield from 6.43% to 8.01%. One wonders how any borrower could conceivably make a differential profit through reinvestment on money that cost better than 8.01%. Yet from these loans, the Credit Protection Department as lendor realized a net income of $7,165.73, or 7.65%.

Needless to say, no further call loans were made after October 1929.

Railroad Bonds. True ability in investment management is plainly visible in reviewing the manner in which these securities were handled. A net yield of 4.55% over the past four years, and this accomplished in the face of forced liquidation in an uncertain market! But let the facts speak for themselves.

It will be noticed that these Railroad Bonds were purchased in two main groups, $146,244.32 in 1927, and $207,854.31 two years later. The securities were those (*Cont. on page* 32)

Notes About Credit Matters

We mourn our loss

The first President of the N. A. C. M. and one of its earliest supporters died in January—both full of years of honorable service to the credit profession. The following two obituaries are from the pen of J. H. Tregoe, past Executive Manager, and now second oldest living president in regard to date of service. E. A. Young is the N. A. C. M's. oldest living leader now.

William H. Preston

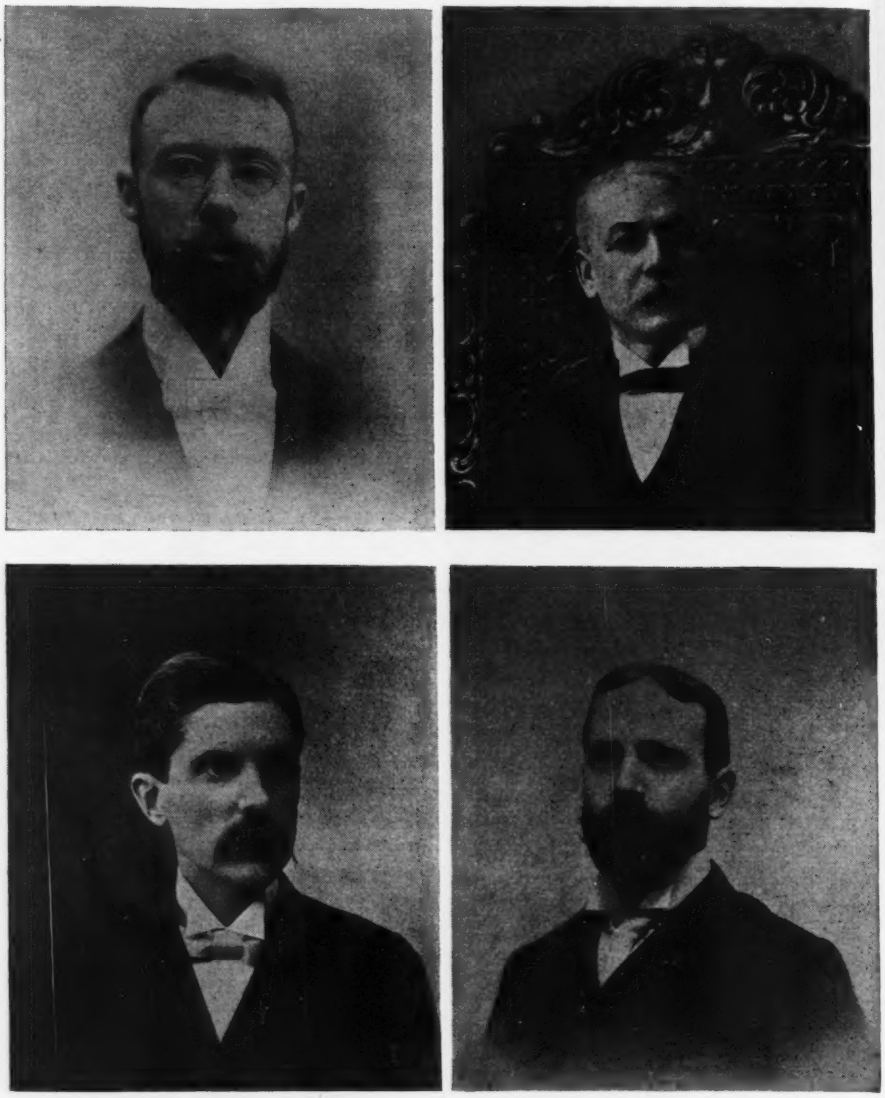
The passing of Mr. William H. Preston of San Francisco on January 21 removes from our circle a figure which loomed very high in the natal days of the National Association of Credit Men.

Cooperation as a credit practice was not dreamed of until after 1890, when the devastation of the 1893 panic caused administrators of credit to realize there was something vitally deficient in its texture.

The realization of this truth was an epoch in the commercial affairs of our nation and out of it not only was born a great organization but a transformation throughout our business and social affairs.

No one in those days had a more vivid realization of the credit needs than Mr. William H. Preston, who at the time was Credit Manager of a large hardware distributing house in Sioux City, Iowa. His imagination and initiative were very active and after the seeds of cooperation were partially sown there resulted eventually the call for a Convention in Toledo, Ohio during 1896 that brought results of tremendous significance to the future credit practices of our country. At this Convention only a handful of men gathered but they were earnest; they recognized the crying need of a credit technique and when deciding upon the organization of the National Association of Credit Men, Mr. William H. Preston was elected its first President.

Founders and first officers of the N.A.C.M.



The men who led the N. A. C. M. in its first year: upper left, William H. Preston, Sioux City, Iowa, First President, 1896 and 1897; upper right, M. E. Bannin, New York, First Vice President, 1896; lower left, T. Homer Green, Sioux City, Iowa, First Treasurer, 1896-1901; lower right, Frederick R. Boocock, New York, First Permanent Secretary, 1896.

The earnestness and the fine spirit of Mr. Preston were recognized by his contemporaries and though his identification with the organization did not persist through many official years, yet his belief in its import and its value were ever uppermost in his mind, and at his passing this affection and confidence must have been unchanged.

Mr. Preston had not actively participated in the national affairs of the Association for a long period. He represented the American Credit Indemnity Company on the Pacific coast for many years, residing first in Seattle and later in San Francisco. He was unknown to the present generation of Credit Managers except to those of his immediate circle but his name will ever rank high in the Association's annals. His far-sightedness and energies must ever be accounted as among the leading influences of the movement that eventuated in the National Association of Credit Men.

Edward F. Sheffey

The influence and moral powers of the National Association of Credit Men are largely the reflection of the faith and the spirit of its founders.

Years before the city of Lynchburg, Virginia could boast of a local Association of Credit Men, one of its active citizens, Mr. Edward F. Sheffey, became identified with the credit move-

ment as an individual member of the National organization and was a pivotal influence in organizing his associates into a local body. He appeared at the National Convention in New York City in 1904 and the wholesomeness of his character, the integrity of his actions and the personality he constantly radiated soon brought him the recognition that his training and mentality deserved.

Honored by the Lynchburg Association in many ways and serving the national organization as a Director and on important committees, the life and the high purposes of this man won friendships and respect that endeared him to the memories of those who were his close associates.

No community activity in Lynchburg failed to receive the impress and the stimulation of Mr. Sheffey. For thirty years he was Secretary-Treasurer of the Craddock Terry Shoe Company in Lynchburg; for thirty-six years he was Superintendent of a Sunday School; he was identified officially with educational activities in Virginia; active in the affairs of the Young Men's Christian Association, and in the government of Lynchburg.

The home of Mr. Sheffey reflected his character. In his passing, the city of Lynchburg, our organization, and the others with which he was actively identified have lost one whose spirit and activities were always on the constructive side. Another pioneer in the early days of the National Association of Credit Men has joined the many who have preceded him, after writing a page in the Association's history that will always be stimulating to those who have been enlisted to carry on its work.

Meet in Milwaukee!

(*Continued from page 19*) at the Credit Congress, which in the industry groups is also the climax of their year.

As for entertainment, there will be of course the Annual Convention Ball on Monday night. There will be something fully as new and novel as our fine trip to Boblo in Detroit last year. There will be particularly careful attention to the entertainment wishes of our lady guests. There will be provision made so that all attending the Convention will have ample time to visit the Century of Progress at Chicago. While not definitely decided as yet, it is entirely likely the official Convention by careful planning can be closed on Thursday night, allowing for Friday and Saturday at the Century of Progress in Chicago.

Credit and Financial Management will, as usual, hold its Business Show which is of great interest to Convention delegates. It is expected that the National Association will also again offer and exhibit a display of its services and activities.

This article, as mentioned before, is merely the opening gun, a perliminary general announcement, and all local associations will be advised both by direct letter and through the pages of this magazine on the future developments.

We repeat from our comments last year that there is no substitute for your National Convention. Under the stress of the trying period from which we are emerging, there may be some perverted ideas of economy. But to those who come prepared to obtain all tangible and intangible values from meeting together, the National Convention will be a sound investment. The investment will translate itself into greater knowledge of our work, greater knowledge of our profession, valuable contacts, and a pleasurable interruption from the daily close application to our individual work.

There is no better authority on what we may expect the week of June 18, than our past Executive Manager, J. H. Tregoe. In a recent letter he writes: "I have always found in Milwaukee a most hospitable atmosphere. Those folks have the temperament and cordiality that make you feel at home."

We meet in Milwaukee. Set your sights—plan ahead so that the week of June 18th we "meet in Milwaukee."

Offer war debt literature

Recent developments in the intergovernmental debt problem and their economic significance bring this question to the fore in the minds of all who are interested in economic recovery. The Committee for the Consideration of Inter-Governmental Debts, of which Alfred P. Sloan, Jr., President of General Motors Corporation, is Chairman, has a number of articles on this important problem available, without cost. These include:

Report of Committee of Economists on Inter-Governmental Debts, August 24, 1932.

Commodities and Inter-Governmental Debts. By C. T. Revere, November 23, 1932.

Shall We Deflate Some More? By Walter Lippmann. Reprinted from the New York *Herald-Tribune*, November 23, 1932.

Cotton Authorities Urge Debt Revision as Aid to Recovery. Leading Industrialists Urge Extension of Moratorium, December 12, 1932.

Not Only Cotton and Wheat Involved. Reprinted from *The Texas Weekly*, November 26, 1932.

Towards a Business Solution, October 3, 1932.

The War Debt Problem. By Frank Simonds.

Making Selfishness Pay. Editorial and Cartoon reprinted from January 7, 1933 issue of *Collier's Weekly Magazine*.

Let's Park Our Prejudice. Editorial and cartoon reprinted from January 21, 1933 issue of *Collier's Weekly Magazine*.

Address of Frederic R. Coudert, member of the Institute of International Law, over the Columbia Broadcasting System, December 3, 1932.

Address by Senator Borah, U. S. Senate, January 4, 1933.

Copies of these reprints may be secured from the Committee for the Consideration of Inter-Governmental Debts, 330 West 42nd Street, New York, N. Y.

Voluntary grocery chains growing

There was a gain of 27 per cent in the number of voluntary grocery chains in 1931—that is, the chains operated by wholesale grocers, according to the American Institute of Food Distribution. The number of groups increased from 551 at the end of 1930 to 700 in 1931, while membership in such chains advanced from 59,640 to 80,000 stores in the same period, according to this report.

Home-made farm relief

In the days before oil was discovered in Texas, a traveling man stopped for the night at a dry-land ranch near Wink.

As he discussed the affairs of the country with his host, he became more and more puzzled as to how the little ranch paid its way. At last he ventured the question:

"How in the world do you make a go of things at all?"

Indicating the hired man, who was sitting at the far-end of the suppertable, the host replied:

"You see that feller there? Well, he works for me, and I can't pay him. In two years he gits the ranch. Then I work for him till I git it back."

—*Hudson Star.*

Handled with care

(*Continued from page* 29) of 14 railroads, spread geographically over the entire country. Of the issues, eleven were equipment trust bonds and two were first mortgage bonds. Nothing but grade A bonds were taken into the portfolio, yet the securities purchased in 1929 were so carefully chosen that a yield of 5.40% was expected had they been held to maturity.

It is interesting to review from Exhibit 1 the schedule of maturities and the care with which they were planned. Two facts are self evident; first, the arrangement of the amounts to mature, and second, the few number of years to due dates.

As for the first point, it can be pointed out that it was the original intention to have a gradually increasing amount of bonds turned into cash through redemption, the peak being reached in 1932, the third year of the 1929 Fund. Thus a small cash reserve would slowly come into existence and sufficient cash would be on hand to cover the financial requirements of the final two years, as well as to provide a liquid reserve for any contingencies.

The average number of years to maturity of the entire portfolio was but 4.4 years with 1927 investments averaging 5.6 years until their due date, and 1929 purchases having only 3.1 years to run. The additional safety of short maturities need not be explained. One has only to compare short term interest rates with the higher long term rates to see the reflection of this fact. Yet with the added safety of short maturities, the investors still succeeded in obtaining higher than average yields.

Had it been possible to follow through on the planned schedule and realize the full benefits of the investment program, the Credit Protection Department would have profited handsomely thereby. It has already been stated that the total raised on the 1929 Fund fell 50% below the proposed quota. Facing the problem of meeting operating expenses of the Department, it was finally decided to liquidate part of the security holdings. To what extent this forced liquidation occurred is demonstrated by Exhibits 2 and 3. It will be seen that the amount of bonds maturing in 1933 amounts to 14% of the total planned for that year, and that for the years 1932 and 1931 only 22% and 41% respectively could be held until redemption.

Stated in other words, of the whole portfolio, 60% was sold before due date, 8% is still invested, and only 32% could be retained until maturity.

The result of this forced liquidation was twofold. First a small trading loss was suffered, and second, in amortizing this trading loss the yield was decreased. The net trading loss on Railroad Bonds amounted to $1,723.90, or .47% or the volume handled. This figure compares favorably with the .51% loss experienced in the handling of Governments. An analysis of the Trading Loss including profit and loss on both sale and redemption of securities follows:

Trading profit on maturies	$921.53	
Trading loss on maturities	232.23	
Profit		$689.30
Trading loss on sales	$4,326.94	
Trading profit on sales	1,913.74	
Loss		2,413.20
Net Trading Loss		$1,723.90

68% of the trading loss on sales, equivalent to $2,903.03, was a result of 1932 forced liquidation. It is rather remarkable that only 32% of the trading loss occurred prior to that time.

It will be well to bear in mind that all yield figures take into consideration the amortization of all bond premium and discount whether on purchase or sale so that the yield figures as stated are net and in effect wipe out the entire trading loss. In view of this, they are all the more remarkable. The proposed average yield on all Railroad Bonds was to be 4.95%. Actually, these securities yielded 4.60%. Breaking the portfolio into 1927 and 1929 investments, it was discovered that the proposed yield on the former holdings was 4.55%, actual return 4.55%, while the later purchases were bought to return 5.40% but actually yielded 4.65%.

Let us turn to some average yield figures for Railroad Bonds as given by Standard Statistics. The average yield of 15 R. R. Bonds purchased during the year 1927 was approximately 4.30%; during 1929, 4.60%. Yet 1929 purchases show that a potential yield of 5.40% was expected, and the corresponding figure for 1927 investments was 4.55%. That securities could be purchased to yield up to 8/10% better than average yield for the same class of security, and that the investments made were all on a short term basis notwithstanding stands out as a most creditable performance.

As for actual yields, the facts stand on their own merits; 4.60% *NET* over the past five year period.

One final point, namely, the current market value of the portfolio. The market value of the portfolio as of February 15, 1933, was about 70% of its par value. Standard Statistics selected list of 20 R. R. Bonds has depreciated in value to 55-60% of its part value. That the present portfolio has been able to show a marked superiority to other securities in its own class speaks highly for the manner in which selection both in purchase and liquidation was made.

Eternal triangle

(*Continued from page* 21) then promise that they will pay the debts of the corporation. Here the consideration is to the promisors, that they will be able to realize something on their interest in the corporation, in return for the creditor not pursuing the corporation and thereby destroying the same.

There are also the corporations that are in the surety business, and of course they are allowed to become sureties and guarantors. Ordinarily, with the case of a surety, a change of time will release him, but as to a surety company, an extension of time to the debtor does not release the surety company unless this is proven to be a disadvantage to the surety company. This distinction is by reason of the fact that an ordinary surety enters into such contract as an accommodation, while a surety company does such business for a profit.

In cases of entering into suretyship, there is one caution to always be observed, and that is, that if a party offers to be a surety, then the creditor must first notify him of his being accepted as such, before he is bound. However, if the creditor originally offers to take a party as a surety, and the proposed surety accepts, then there does not have to be any further notice of acceptance by the creditor to the surety, for in the latter case, the surety has already accepted, while in the former case, he has made the original offer and naturally there must be the acceptance on the part of the creditor to consummate the contract.

One must be careful in releasing any particular co-surety. For a release of one co-surety releases the others pro-rata, the same as if the one surety released had paid his portion of the debt, even if he in fact had not done so.

Once a surety has paid on account of the default of the debtor, he is subrogated to the rights of the creditor

against this debtor. He will enjoy any priority that the creditor did unless this might conflict with any recording laws as to priority.

The above is a summary of the high spots relative to Suretyship, Guaranty, and Original Undertakings, and the writer trusts that this should be of some aid to the readers of this magazine, who are constantly extending credit, as in these days of perilous times, credit men wish to grant credits not in sole reliance on the debtor, but partly on the strength of others who may make these bills more secure. Though the subject is not discussed exhaustively, it should, I believe, take this subject out of the dark, and allow credit men to additionally secure claims with full intelligence on the subject, and with assurance that the liabilities of the surety and the guarantor cannot be defeated through faulty execution of the original instruments.

Cooperation

(*Cont. from page* 15) by adding the rule that no member of the Society shall discuss the affairs of his client with a third party without the explicit consent of the client. Where the work of the accountant is concerned particularly with the preparation of a financial statement for credit purposes, he should at the outset obtain permission from his client to communicate with his creditors when approached by them. If such permission is withheld, the accountant may refuse to accept the engagement. This will ultimately do away with any misunderstanding. The use of a statement to obtain credit implies the right of the creditors to consult with the accountant.

One of the most important tasks confronting the accountant and the credit executive is that of educating the business man to the importance and value of the frequent circulation of complete and accurate information concerning his financial condition and operations. The credit executive and the accountant can do more than all others to impress upon the business man the vital need and mutual advantage of such a policy, particularly in these trying days. The quickest and surest way to cultivate this habit is to demonstrate to the business man the genuine desirability of this information for use in his own interests. He should however be made to understand that when he uses the report of his accountant to obtain credit, the financial statement must be used in its entirety. The report represents, in the opinion of the accountant, a true picture of the financial standing, as of a certain date, and of the results of operations for the period under review. If only a part of the report is used to secure credit then the accountant, in view of his obligation to the public, must insist upon permission to give out such additional information as has been improperly withheld or altered. This viewpoint is heartily endorsed by A. P. Richardson, Editor of the *Journal of Accountancy* and author of *The Ethics of a Profession*, who says that "the accountant should regard himself as a servant of the public and secondly as a servant of the client".

The need for the construction and adherence to a code of ethics is universally recognized. The most valuable factors of the accountant's services to his clients and to their creditors are his honesty, his integrity, and his loyalty. If he lacks any of these, he not only destroys his usefulness, but becomes dangerous to society. Canon number two of the code of ethics of the National Association of Credit Men is apropos of this. It deals with the ethical relationship of the lawyer and business man, and reads: "It undermines the integrity of business for business men to support lawyers who indulge in unprofessional practices. The lawyer who will do wrong things for one business man injures all business. He not only injures his profession, but is a menace to the business community". The accountant must be similarly regarded. The law is becoming increasingly cognizant of the relationship of the accountant in the business world. The accountant is beginning to receive the same protection for his association with his client as that extended to the lawyer and physician. The Ultremares case has emphasized the liability of the accountant to his client for negligence and his liability to third parties for fraudulent statements. The value of the accountant's services is based upon his ability to determine facts and to present them. The faith and trust placed in him is measured by the integrity and singleness of purpose with which he carries these out.

Cooperation is the slogan of the day, yet notwithstanding the fact that the spirit of cooperation is one of the guiding principles of modern business, it is clearly evident that we have hardly begun to realize in practice the manifold benefits which the cooperation between credit executives and accountants can bring about for the stimulation and healthy growth of industry. The development of more frequent intercourse between the three parties, the debtor, the credit executive, and the accountant, during the life of their business relations will not only foster a better understanding, but will undoubtedly avoid many post mortem gatherings.

Compulsion!

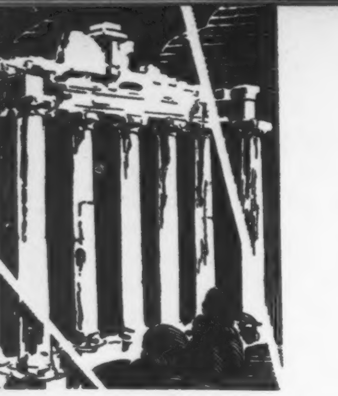
(*Cont. from page* 14) as possible, to ultimately realize a profit.

Correct accounting records and the preparation of informative reports therefrom, are necessary not only as a record of past performances but also to enable forecasts of future operations to be based theron.

One of the latest expressions of a representative body on the subject of independent audits is that of the Chamber of Commerce of the State of New York, which on June 2, 1932, adopted the following resolutions:

> "RESOLVED, That the Chamber of Commerce of the State of New York urges upon the directors of all corporations whose accounting methods are not under Federal or State supervision but whose securities are dealt in publicly, to amend their by-laws to require that independent certified public accountants shall be selected by the shareholders; that the reports of such accountants shall be rendered in full to each and every director and be made available for inspection by the shareholders; and that the text of the accountants' certificate be spread on the minutes of the company and printed in the annual report; and, be it further
>
> "RESOLVED, That the Chamber recommends that all close corporations and firms as well as counties, cities, and other political sub-divisions which require substantial loans from financial institutions or others, inaugurate the practice of periodical audits by independent certified public accountants."

While there is no suggestion in the resolutions that the proposed changes be made compulsory, the writer ventures the opinion that our legislators would express their appreciation of the need for appropriate action if they incorporated such a requirement into law.



Accounting forum

An open clearing-house of ideas and news for credit executives by accountants.

Optional Discounts

by LOUIS G. PELOUBET

Accounting opinion on cash discount takes the two rather extreme views that discount equivalent to interest of 36½ per cent per annum is a financial gain and that in no case is financial gain realized. As a reasonable and practical compromise there is presented here the view that every cash discount includes a financial gain up to but not exceeding the equivalent of interest of 9.125 per cent per annum. The ground for this intermediate position is that the use of money being the essence of optional discount, payment for that use is inherent in the transaction to the extent of a reasonable interest, and a thing acquired costs the money paid for it plus whatever the earlier giving up of the money costs.

This may be illustrated by re-stating a plain little invoice of "Merchandise $100.00, terms 2-10 net 30" somewhat as in Table A.

Table A

List or basic price	$188.00
Trade discount—40, 10 and 1½%	88.00
Invoice price—the amount required to be paid if payment is made in 30 days	100.00
Trade allowance—a reduction made for payment in 10 days in recognition of the fact that earlier payment decreases the seller's credit risk and collection expense	1.51
Cost of goods	98.49
Cash discount—a reduction made for payment in 10 days in recognition of the fact that money earns interest; a reasonable interest being considered ½ of 1% for 20 days prepayment, equivalent to 9.125% per annum	.49
Discounted price—the amount acceptable if payment is made in 10 days	$98.00

That interest is an actual cost in the transaction is a fact which can not be argued away. In electing to discount, the purchaser not only gives up money but gives up also the right to the use of that money—a right which is of definite money value to him. If this is sound it warrants taking the highly desirable position that sufficiency or lack of capital does not affect the price of goods; that goods cost the same to all purchasers enjoying like quotations and that discounting or not discounting does not affect the cost of goods.

In attempting to arrive at that uniform cost it seems reasonable to regard the invoice price as a purely nominal figure and the discounted price as the real base of the true cost—this for two reasons; it accords with the view of the seller who initiates the discount, and, while there is no arbitrary compulsion, the purchaser is strongly moved to take and the seller strongly moved to give the discount.

The purchaser's incentive is, of course, to save money—usually in an amount much greater than reasonable interest. The seller's incentive is first the use of money and second to benefit in other ways, such as reduced credit risk, lessened collection expense and perhaps increased volume and turnover—all valuable considerations.

In the following optional discounts commonly quoted in various trades the accountant's problem under this intermediate plan is to determine what portion is for the use of money and what portion for other benefits or considerations.

Per cent	For prepayment of	Approximate equivalent annual rate
From ½ to 10	20 days	9 to 203%
From 1 to 5	30 days	12 to 64%
From 1 to 6	50 days	7 to 47%
2	60 days	12%
2	80 days	9%
From 2 to 7	110 days	7 to 25%

The exact and accurate division probably would vary in all cases, but those variations being impossible of ascertainment the practicable course is to treat all alike.

Consistent and uniform treatment in accounts waits only general agreement upon a fixed theoretical dividing line. To find that line we must have a standard measure. It seems reasonable to base that normal measure upon the commonly quoted discount bearing the closest resemblance to a composite of commercial interest, legal interest and fair return on capital. Terms of ½ of 1 per cent 10 days net 30 days, which seems nearest to meeting that requirement, would give a 9.125 per cent annual rate as the measure of true cash discount. For example:

Terms	½% 10 net 30	2% 10 net 30	4% 30 net 60
Invoice price	$100.00	$100.00	$100.00
Trade allowance	......	1.51	3.28
Cost of goods	$100.00	$98.49	$96.72
Cash discount:			
.09125 per annum			
.00025 per diem			
20 days at .00025 = .005			
$99.50 at .005	$ .50		
$98.00 at .005		$ .49	
30 days at .00025 = .0075			
$96.00 at .0075			$ .72
Discounted price	$99.50	$98.00	$96.00

The bookkeeping is simple:

On books of	Ledger account	Dr.	Cr.	
Seller:	Accounts receivable	$100.00		Original entries
	Sales		$100.00	
Purchaser:	Cost of goods	98.49		
	Trade allowances	1.51		
	Accounts payable		100.00	
Purchaser:	Accounts payable	2.00		Further entries if discount option exercised
	Trade allowances		1.51	
	Cash discount		.49	
Seller:	Trade allowances	1.51		
	Cash discount	.49		
	Accounts receivable		2.00	

Where purchases are permanently capitalized and discount not taken, a

further entry credits "trade allowances" and charges the fixed asset. The seller in effect says "my price is $98.49. If paid in 10 days I will return to you 49 cents as interest. If paid in 30 days I will add $1.51 for my increased credit risk and collection expense, and that you will have to set down to your cost of lack of capital."

There is much to be said in favor of this intermediate view. Supply, store and stock records would have a definite and unchangeable cost figure to deal with, unaffected by the taking or neglecting of discount and eliminating voucher corrections.

It solves the question of discount in inventories.

It would show (except for capitalized items) neglected trade allowances. That other part of the discount which is really for cash can hardly be classed as neglected as it is offset in the earning value of money withheld.

It would tend to settle discount controversies in cost-plus cases, free departmental results of any capital effect and furnish a consistent base for commissions or bonuses which hinge upon gross or operating profits.

It cares for complex terms. Under terms of 5 per cent cash, 2 per cent 30 days, net 3 months a $100 invoice would be entered as cost of goods $97.17 and trade allowances $2.83; if paid immediately cash discount would be credited $2.17 and trade allowances credited $2.83; if paid in 30 days cash discount would be credited $1.49 and trade allowances credited $.51.

It removes the time element from discount rates. Translated into an annual rate 2 per cent for 20 days prepayment is four times 2 per cent for 80 days prepayment.

It comes nearer to placing discount entries in the year to which they relate.

It places selling and buying on the same footing. The business which, treating all discounts of 2 per cent and under as financial gain, allows ½ of 1 per cent on its sales and receives 2 per cent on its purchases, reports a net financial gain of 1½ per cent, whereas as a matter of fact the net financial gain on any adequate interest basis is nothing.

It is in line with legal decisions; which hold that discounting means to take interest in advance and that in ordinary commercial documents discount means rebate of interest.

It conforms to the federal income-tax requirement that strictly cash discount must approximate a fair interest rate.

It closely approximates a present-worth calculation.

And finally, if the reader will turn back to the third paragraph he will see that it is based upon the same two principles which underlie the conflicting views referred to in the opening paragraph.

—*Journal of Accountancy.*

Truthful financial statements

(*Cont. from page* 17) in a previous paragraph, the owner must be able to utilize such evidence of wealth. That is, in order to utilize an account receivable, a note receivable, or a trade acceptance, the item must be collectible in the ordinary course of business; in order to utilize an item of inventory, it must be salable or usable during a reasonable period of operations, usually one year; an item of plant or equipment must be in actual use. Obviously then, receivables uncollectible in the ordinary course of business, inventories unsalable or unusable during a current period, idle plant and equipment, goodwill and most patent values are "Non-Circulating."

Second, those items which have been determined to be "Circulating" must be priced at their economic values. A receivable that is collectible in full in the ordinary course of business is valued at its face; an item of inventory must be valued at its present cost of replacement; an item of plant or equipment must be valued at the cost of replacement of an asset in similar condition; an investment can be valued only at its market value. The excesses of book values over the values so determined are, of course, "Non-Circulating Values." From the so determined "Non-Circulating" values must be deducted the established book allowances for depreciation, amortization, bad debts, inventory shrinkages and others.

A financial statement so prepared thus furnishes the credit man as well as the manager of his own business with the true picture of economic value. Such a statement, properly prepared, eliminates all elements of guesswork and need for hypothecation on the part of the credit man, especially if such statement is accompanied by an operating statement likewise prepared in recognition of the principles of the "Circulation Theory."

The writer has definitely determined the application of the "Circulation Theory" to every known (*Cont. on page* 37)

Our readers think

I wholly disapprove of what you say and will defend to the death your right to say it.—Voltaire to Helvetius

Exceptionally well-done

Dear Sir:

Each month the writer has taken keen delight in reading the collection letter that is published. However, there has been even more enjoyment in analyzing each letter to see precisely what it was that the writer had in succeeding in putting his message over so well. In other words, where the "pull" came from. Sometimes it was the psychology used. On other occasions it was the timeliness, while on still others a selling point was made out of an event of national or international importance, such as the letter published in the January issue.

The credit or collection managers who have been keen enough to capitalize in this way should be complimented highly, and if you have been making the selections each month, as presumably you have, an equal amount of praise should be yours. I, personally, have thought that the various letters have been exceptionally well done.

In the last paragraph of your write-up, you have offered to send a selected series of individual copies of the various letters which have appeared in CREDIT AND FINANCIAL MANAGEMENT. I should like to take advantage of that offer, and, therefore, ask that some time when convenient you send the entire series to the writer, marked for his personal attention.

Yours very truly,
H. E. BRAY,
Dennison Manufacturing Co.,
Framingham, Mass.

"Interest and indignation"

Dear Sir:

I have read and re-read with interest and also indignation the article, "The High Cost of Veterans" by Representative Robert G. Simmons in the November issue.

In the first place I am a veteran of the World War and in sympathy with the program of organized veterans. I have been very active in veteran work and know that the percentage of undeserving relief is very small.

This article is rather amusing in some respects. It is apparently the type referred to by "Bugs" Baer, when he said there should be more decimal points in statistics.

Some of the figures in this article are obviously for the purpose of display only and to arouse the ire of the unthinking. For instance, that figure showing $2,668.66 per capita based on the number of those killed or wounded during the war. The writer should have left out the wounded and just figured per capita on those killed and he could have obtained an even larger figure.

Even when you take the figures of $180.91 per capita based on the total mobilized forces during the war period, try to remember that living conditions and standards should be American in the United States of America.

Mr. Heimann in his January Monthly Business Review gives some interesting data on veteran relief and then says, "Here then, is the first large saving that should receive the attention of Congress".

Why should veteran welfare relief be the first? Surely the man who was *so important* to the welfare and safety of our nation in 1917-18, deserves some consideration and surely his cost to the government is no more unjust than many outstanding examples of high-handed legal graft that are known and tolerated. Surely the cost of veteran relief is one of the costs of war. If you believe in history and have a fair knowledge of just what happens, I believe that I can point out to you that no man in actual service came out with the material wealth that was accumulated by those who stayed at home and managed the campaigns of the war and their own interests.

In closing, allow me to say that I do not join with the National Association of Credit Men in its apparent official support of the National Economy League. If the League is sincere in its desires to reduce governmental expense, it should, without any partiality, throw the floodlight of public attention upon the many extravagances of government officials and practices as well as upon the costs of veteran benefits.

The care of the veteran is a responsibility of the American people. We, as a nation, cannot afford to shirk this responsibility. If the responsibility is denied by the Federal government, then the cost reverts back to the taxpayers in the states, cities and towns of the country. To my mind, it is a responsibility of the National Government.

Yours very truly,
EDWARD M. SEACORD,
Vice-President
Nelson Meat & Live Stock Co., Inc.
San Jose, Cal.

Erratum

Dear Sir:

In your issue of February, 1933, on page 23, your attention is called to the typographical error in giving the statistics for the Northern District of Alabama.

Under the heading "Paid Creditors of all Classes" there appears as "Per cent of Proceeds" the figures 9.01, when it should be 90.10.

If one were to take the other figures opposite the Northern District of Alabama and make his own calculations, this error would correct itself, but the ordinary reader never takes the trouble to do that and therefore would suppose that the Northern District of Alabama had only paid to creditors 9.01 per cent of proceeds realized, when in fact there was so paid to creditors 90.10 per cent.

This error has resulted in such manifest injustice to the bankruptcy administrators in the Northern District of Alabama that you should, I think, correct it editorially.

R. H. EGGLESTON

We must also acknowledge an error in compilation for "Attorneys' fees: per cent of amount realized" for Eastern North Carolina. It should have read 6.05 rather than 60.52. Decimal points astray surely cause troubles!—Editor

"Meals or meal tickets"

Dear Sir:

I have just read Mr. Weir's article on "Meals or meal tickets" in the February issue and hasten to tell you that I think it is an excellent article. In addition to its other good points, it is written so clearly that almost any person can read and understand it. If more of the technical economic principles were presented in the same clear, readable style, perhaps they would find more general acceptance.

W. C. PLUMMER,
Merchandising Research
Division, U. S. Dept.
of Commerce

Truthful financial statements

(*Continued from page 35*) item of assets or liability but space does not permit such a detailed discussion in this article. In valuing fixed assets the accountant must recognize and encourage reliable and accurate appraisals of value of those items actually in use and which are contributing utility in the operation of the business.

The "Circulation Theory" is applicable to large enterprises as well. It furnishes the only basis upon which an adequate financial statement of a holding company can be prepared, inasmuch as all intangible and artificial values are segregated as "Non-Circulating."

For the accountant, the "Circulation Theory" furnishes an actual guide in the determination of values. It furnishes, for example, the method for truthfully reflecting inventories, notwithstanding the fact that inventory verification is strongly contested by many accountants. It places the practice of accouting and the preparation of financial statements upon the basis of economic facts and until this is accomplished the credit man and the investor cannot be expected to respect financial statements as they should be respected.

However, the accountant cannot accomplish this result alone. He must have the cooperation of the credit man.

The creditor is the "boss"—no matter whether he be a trade creditor or an investment creditor—and the new credit era which will grow with the expansion of confidence and credit must be accompanied with a new accounting era in which financial statements prepared in recognition of the simple principles of economic fact will serve as truthful instruments of credit.

Inasmuch as the "Circulation Theory" recognizes as working capital only those assets actually in use in yelding revenue to their owner, its principles apply most vitally to the operating statement and this application will be discussed in a subsequent article.

What did people talk about before prohibition?

WILLIAM FEATHER.

Mutuality

A certain firm had the following legend printed on its salary receipt forms:

"Your salary is your personal business, and should not be disclosed to anyone."

The new employee, in signing the receipt added: "I won't mention it to anybody. I'm just as much ashamed of it as you are."

Insurance digest

Inaugurated because of the credit fraternity's close contact with the insurance field and need of information about it.

Policy records by B. L. ENLOE

FACE

RECORD OF INSURANCE PREMIUMS EXPIRING MONTH OF ______ 19__

	YEAR ____			YEAR ____			YEAR ____		
MONTH	DR.	CR.	BAL.	DR.	CR.	BAL.	DR.	CR.	BAL.
JAN.									
FEB.									
MAR.									
APR.									
MAY.									
JUN.									
JUL.									
AUG.									
SEPT.									
OCT.									
NOV.									
DEC.									

BACK

RECORD OF INSURANCE POLICIES EXPIRING MONTH OF ______ 19__

				COVERAGE		PREMIUM		
DATE [illegible]	POLICY NUMBER	INSURANCE COMPANY	PROPERTY INSURED	KIND	AMOUNT	MONTH PREPAID	AMOUNT POLICY	AMOUNT MONTH

The purposes of most records for insurance policies are to list the policies in force, to register the expiration dates for convenience in renewing the policies, and to summarize the premiums in such manner that the total expense may be ascertained and written off in monthly instalments. These essentials should be retained, but it is possible to reduce the amount of work incident to keeping the records.

The principal disadvantages of most existing insurance records are:

1. A second entry must be made for each policy maturing beyond the end of the current year;
2. Details of expired policies must remain in the record until the end of the current year;
3. The premium for each policy must be separately distributed to the monthly write-off columns;
4. Credits for rebates and cancellations have to be distributed individually. The columns then include items which are deductions from as well as those which are additions to the totals;
5. It is a voluminous and difficult task to find the balance of unexpired premiums.

To eliminate these disadvantages it is proposed to record the policies in groups on loose cards, using one card for each expiration month, regardless of the dates of the policies or the period covered by them. The back of the card provides for listing the individual policies. The total of the premiums paid is summarized on the face of the card, from which the proportion of the premiums to be written off in each month may be readily obtained.

The back of the card is for the most part self-explanatory. Provision is made for the data obtained from the policy itself, commonly found in insurance records. Inasmuch as the card indicates the month and year of expiration of all policies listed on it, it is necessary to enter only the date of expiration within the month. The amount of the premium and the month when it is charged to the prepaid-insurance account are entered in the spaces provided for them. At the end of the month, the total of the premiums so recorded is debited on the face of the card.

Having accumulated the premiums by expiration months, it is necessary to determine the amount to be written off in each month. It is assumed that no part of the premium will be charged off in the month in which the policy is dated, as that month will be charged with a full month's proportion of the premium for a policy which expires during that month. The only objection which might be raised to this procedure is the effect on the amount of the prepaid-insurance account. Inasmuch as a balance-sheet can not be more than an intelligent approximation of the financial position of a company, a slight overstatement of the prepaid-insurance account is unimportant. Alternatively, all policies expiring in any month might be regarded as expiring (*Cont. on page* 44)

Answers to credit questions

Conducted by Walter C. Foster

The National Association of Credit Men supplies answers to credit questions and some of the answers, of general interest are printed regularly in Credit and Financial Management. Advice cannot be given, however, regarding legal rights and liabilities. Such advice should be obtained from an attorney to whom all the facts should be stated. When such inquiries are received, information is furnished only as to the general principle of law involved.

Converting Open Account Transaction into Consignment Contract

Q. *After a sale of merchandise on open account, is it possible for the vendor to protect his interests by converting the transaction into a consignment contract so that vendor might recover in the event of bankruptcy or at least restrain the debtor from selling the material before the purchase price has been paid?*

A. If merchandise has been sold on open account, title to the merchandise has passed to the purchaser unless there was a reservation of title in the contract of sale. Under such circumstances the transaction cannot be converted into a consignment contract unless the original sale be rescinded and title to, and possession of the property is first transferred back again from the buyer to the seller, thereby placing the parties in the position in which they were before the original sale and delivery, in which event a valid consignment arrangement can thereafter be entered into. Unless very carefully carried out under the advice of an attorney who thoroughly understands the relationships created by the various transactions, any attempt to convert a sale into a consignment is likely to be futile.

Failed banks

Q. *Are there any decisions in the states of North Carolina, Kentucky, Virginia and Tennessee as to the status of a check payable to creditor, deposited by creditor in his bank, then sent forward to debtor's bank, said check being charged to debtor's account, but before debtor's bank remits, such bank is closed and the forwarding bank has to look to the depositor for payment? Is the debtor still responsible, or is the entire obligation on the creditor, and is it necessary for the creditor to file claim against the failed bank as his only recourse?*

A. Under the circumstances set forth in this inquiry, the established rule of law is that where a bank fails, after a check has been charged by the failed bank against the account of the maker, the debt is paid so far as the debtor is concerned, and the creditor's claim is against the failed bank. We have been unable to find any decisions to this effect in Kentucky, Virginia or Tennessee, but there are two decisions in North Carolina, *Dewey v. Margolis*, 195 N. C. 307, and *Quarles v. O. B. Taylor & Co.*, 195 N. C. 313. There is a statute in Kentucky to the effect that the creditor, under such circumstances, is entitled to have a trust impressed upon the funds of the failed bank, and is entitled to priority of payment for the amount of the check.

Reel bookkeeping

(*Cont. from page* 23) departments is used for one or two evenings at the first of the month to complete this operation. Three additional clerks were added to the staff of credit analyzers when the history record was expanded to include every account. The credit history records in addition to showing the status of each account up to the current month, carries all credit notations, signal information, etc., and being located in the Credit Division, has a decided advantage over the former method which required the information to be furnished from the Accounts Receivable Department. It is seldom necessary for the credit clerks to leave their department, the only time being when reference to current month's transactions is required.

The handling of adjustments has been speeded up by the photograph system. One set of the film pictures is turned over to this department immediately after the bills have been mailed out. This film is placed in a cabinet at the adjustment counter and is quickly available when needed. The space required to house the complete film record for one month's billing is less than one half a cubic foot, consequently a small cabinet will hold six or more months' work.

Since all previous months' records required in handling an adjustment are located at the adjustment counter, it is unnecessary for the adjustment clerks to go into the Bookkeeping Department for anything but the current month's work. This has resulted in a considerable saving of the adjustment clerks' time and has also been helpful to the posting clerks—for it eliminates interruptions of their work. Two projectors have been placed in this department so that the pictures can be quickly referred to. All requests for duplicate bills and adjustments of all types are taken care of from the film record.

The reaction of customers to the new system of reading their bill from a projected picture rather than from a ledger card is, of course, important. Although it has been necessary to show customers the projected bill pictures only a very few times, these customers have reacted very favorably to the plan. They are usually so interested that they want to know more about the entire procedure.

I do not wish to create the impression that we have experienced no difficulties in connection with this installation, for that would be untrue. Several unimportant things happened. For instance, it has been necessary about a half dozen times to check back a ledger trial balance against a projected film, but we found it no more difficult than the former method of checking with the ledger. We found that there is a possibility of a day's delay in obtaining information from the records on the particular day when the statements are being photographed. On the other hand the same thing was true to some extent under the former method.

We had some slight misunderstanding with the machine operators in the beginning, they being reluctant to perfect a system which eventually might eliminate approximately one-third of the operators. On the other hand by the time the installation was complete, every biller was sold 100 per cent on the plan after finding out for herself how many addtional transactions could be posted in an eight hour day.

There has been (*Continued on page* 42)

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In the modern office

An idea and experience exchange on equipment, system and management in the modern credit and business office.

"Leatherlife" fibre products

There's a new name in fibre products. A new line of fibre has made its bow to the stationery trade, being offered by Wilson-Jones Company. "Leatherlife" is the name chosen for the new line, which includes a wide range of red fibre—wallets, file pockets, mailing envelopes, legal and commercial filing jackets, brief covers, and a full line of clasp, tension tie and photo mailing envelopes.

Ledger trays

Shaw-Walker is now marketing a new line of short depth steel ledger posting trays which they offer in various sizes to take standard forms commonly used in modern bookkeeping systems.

These trays are made entirely of steel, electrically spot-welded throughout, with hand holes cut in the tray ends for carrying convenience, and with felt-covered bottoms to prevent marring or scratching desk or table tops.

Trays are provided with tilting follower blocks operating on rollers against the inside bottom and with tilting front plates that are designed to give compression in locking the ledger for night storage.

The right side of the tray is open and is fitted with a bronze rod arm that drops down to the level of the tray bottom to provide offset outside of the tray and also to permit stuffing posting media into the ledger.

Compression type binder

The Wilson-Jones Company of Chicago has brought out what they have named the El Rey binders, flat opening and close bound. This is a compression type binder which is declared to have exceptional features. It is flat opening and permits the use of very light weight paper stock such as onionskin, news print and low grade catalogue stock. The company claims that it is a close approach to the permanently bound thread sewed book. The sheet body rests compactly against the back of the book, eliminating waste. An expansion of sixty per cent beyond the minimum capacity is entirely practical with this new binder, which requires a binding margin of less than one-half inch.

This new binder is said to be a capital device for binding catalogues, price lists, sales manuals, insurance rate books, legal files or any printed or typewritten material when loose leaf binding with narrow margins is desired. Sheets may be inserted or removed at any point without disturbing the other contents. The binder is declared to be light, compact, sturdy and easy to operate.

Gelatine roll duplicator

The Heyer Corporation, Chicago, Ill., has placed on the market a new gelatine roll duplicator called the "Super-Efficiency." This machine is equipped with a roll eight inches wide by fifteen feet long—a standard size gelatine roll.

The outstanding feature of the "Super-Efficiency" is that it has a positive paper feeding and stripping device. Blank paper is fed into the paper guide and the copy made by a forward and backward movement of the feed carriage. In this way fifty or sixty copies may be made in the same time required to make only a few carbon copies, and every copy is an accurate and neat facsimile.

On the "Super-Efficiency" machine several different colored inks may be used and the original copy may be made with duplicator pencil, carbon paper, typewriter ribbon, or ink.

In the new machine dead weight has been cut down to a minimum. Complete with its gelatine roll the machine weighs only twenty-one pounds. It has an attractive walnut finish. It is low in cost and upkeep, and is efficient in operation.

Reel bookkeeping

(*Cont. from page* 40) an occasional delay in tracing customer information on a reel housing 4000 accounts when two people require information at the same time from the reel. This condition arises only occasionally, however.

We have experienced one instance where the stub of a customer's bill disappeared causing the ledger to be out of balance with the control. In this instance it was necessary to check all statement stubs against the film until the particular missing item was located.

Now that the installation has been completed and we have carried on over a holiday season, we are convinced that the undertaking has been successful and that the economies are substantial and are even larger than those originally anticipated. The photographing equipment being active only at the end of the month on Accounts Receivable records, is available for further uses in other parts of the office. Consideration is being given for additional use of the equipment in the following operations:

1. Accounts Payable—Photographing the resource statement for office record.
2. Credit Department—Photographing in alphabetical arrangement inactive customers' cards removed from the Authorization Index.
3. Statistical Department — (a) Photographing purchase invoices covering additions to permanent assets for a perpetual record, (b) There is a possibility of building a perpetual record of all reports originating in the Statistical Department by use of Recordak.
4. Traffic Department—Consideration is being given to the idea of photographing all bills of lading, freight and express receipts.

Let me briefly outline the important advantages gained and savings effected through the installation of the equipment:

ADVANTAGES

1. Advantages to machine operator:
   - (a) Only one piece of paper to post to.
   - (b) No interruption from Credit or Adjustment clerks since this information is obtained from other sources.
   - (c) Biller handles one-half as many ledger binders with double the number of accounts in each binder.

(*Continued on page* 44)

Everything under Control!

PRODUCTION SALES PURCHASES INVENTORIES

Reliable statistical controls on these vital phases of business are indispensable to safe management. It's a big job to prepare such controls. But the task is simplified by Comptometer methods, which are proving remarkably successful in producing these figures — for every type of business, everywhere.

All that happened the day before — on the records by 10 A. M.

Here's a typical example of Comptometer performance. . . . A battery of Comptometers gives a large soap company all production and shipment figures for the previous day — on forty-two classes of products—at 10 o'clock the next morning. Formerly, getting this information was a slow and difficult process. Now — because the company has complete, accurate figures right on tap—it is able to control production closely. And keep inventories of finished products at the proper level in relation to sales.

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Do you want to be shown?

Why not invite a Comptometer representative to explain the procedure? He is equipped to make an intelligent study of your figure-work routines, and recommend proved and approved methods for meeting your problem. Unless he can show you where definite betterments and substantial savings can be made, he won't try to sell you.

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COMPTOMETER
(TRADE MARK)

PROFIT-PRODUCING FACTS FROM ACCURATE FIGURES

Policy records

(*Continued from page* 38) in the middle of the month and a half month's premium might be calculated as falling in that month.

The amount of the premium to be written off from each card in any month is the balance at the beginning of the month, divided by the number of months to and including the month of expiration. If the policies expire twelve months hence, one-twelfth of the balance is written off, and the following month one-eleventh of the then balance is written off, and so on. The result is exactly the same as that obtained by distributing the premium on each policy to monthly columns. If no new premiums are paid or no credits are made for rebates, the amount of the monthly write-off is unchanged, although it may be proved by an independent calculation. Premiums for subsequent policies having the same expiration do not alter the method of calculation, as they are written off over a shorter period and in the same proportion as the balance on the card at the time of their entry. In this way, the premiums are apportioned to the months between the dates and the expirations of the policies they cover.

Details of credits because of cancellations, rebates, etc. are entered in red on the back of the card. The total premium refund is transferred to the face of the card and deducted from the balance, thus automatically reducing the amount of future write-offs.

To obtain the total monthly insurance expense, for which a credit is made to prepaid - insurance account, the amounts determined on each card are totaled.

As all entries in the prepaid insurance account must be entered in detail on the card record, the general ledger account provides a control over the record of premiums. A summary by plants, buildings, stock, etc., should be prepared as a control for the coverage as shown on the back of the cards and as a guide in maintaining adequate insurance. This summary does not require revision for the renewal of policies.

It is often desirable to distribute the insurance expense to several plants or to several departments. For this purpose, it is a simple matter to have separate sets of cards for each plant or department, the total to agree with the prepaid-insurance account. The total expense may likewise be apportioned in any other manner requred by the company's cost department.

For comparison of present methods with the methods proposed here, let us assume that the insurance on a stock of merchandise was covered by two policies dated in January, 1931, and expiring in January, 1932. In July, 1931, the insurance was increased by an additional policy which was written to expire in January, 1932. Under the present methods, the premiums would be distributed somewhat as follows:

Distribution of premiums

Date of policy	Months to run	Premium	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Balance 12-31-31
Jan. 1931...	12	$96	—	8	8	8	8	8	8	8	8	8	8	8	8
Jan. 1931...	12	72	—	6	6	6	6	6	6	6	6	6	6	6	6
July 1931...	6	54								9	9	9	9	9	9
		$222	—	14	14	14	14	14	14	23	23	23	23	23	23

The distribution of premiums by the proposed method follows:

Month	Dr.	Face of card Year 1931 Cr.	Bal.	Monthly write-off represents fraction of balance at beginning of month
Jan.	$168	$—	$168	—
Feb.	—	14	154	1/12
Mar.	—	14	140	1/11
Apr.	—	14	126	1/10
May	—	14	112	1/9
June	—	14	98	1/8
July	54	14	138	1/7
Aug.	—	23	115	1/6
Sept.	—	23	92	1/5
Oct.	—	23	69	1/4
Nov.	—	23	46	1/3
Dec.	—	23	23	1/2

—*Reprinted from "The Journal of Accountancy."*

Reel bookkeeping

(*Continued from page* 42)

2. Advantages to Credit Department:
   (a) Have all credit information in Credit Department on their own Credit history record.
3. Advantages to Bill Adjustment Department:
   (a) Speeds the handling of adjustments since information is available on films in department. Eliminates walking time.
   (b) Time saver in typing customers' bills.
4. Advantages to the Customer:
   (a) By the elimination of carbon paper, make it possible to furnish the customer with a much neater bill.

SAVINGS

1. Production per biller increased 33 1/3% with a resultant decrease in billing personnel of 9 billers. We showed a decrease of 15 billers for the month of December.
2. 40% less billing machines required to handle the same volume of work together with a saving in service cost on 15 billing machines.
3. Saving of all costs for ledger sheets and carbon paper. The single sheet monthly statement cost has been quoted as being 40% of the cost of a fold-over bill.
4. A 50% reduction in the number of Accounts Receivable binders required since each binder now carries double the number of customers' statements.
5. A 50% reduction in the number of fireproof safes required for housing the current bills.
6. A very considerable reduction in floor space required both in the Accounts Receivable and Adjustment Departments.
7. Reduction in storage files formerly used to house the filled ledger sheets with a further releasing of floor space occupied by the filing cabinets.

Reserves—with reservations

(*Cont. from page* 13) the amount of normal surplus increases the corporation's legal ability to pay dividends, and that any device to decrease normal surplus reduces that ability. Surplus reserves are devices to reduce normal surplus by creating a third category of proprietary equity, which is not subject to dividends, and, in consequence, to make dividends impossible to the extent of the reserve created. Here is a simple theoretical example:

X Company has, in its surplus account on December 31, 1930, accumulated earnings amounting to $1,000,000.00, all legally subject to dividend distribution. X Company, however, needs a new plant which will cost $1,000,000.00 and its directors, therefore, desire to spend the $1,000,000.00 on plant facilities instead of paying it to stockholders in dividends. They therefore adopt a resolution appropriating $1,000,000.00 (*Cont. on page* 46)

Court decisions

ASSIGNMENT FOR BENEFIT OF CREDITORS. GARNISHMENT. WISCONSIN ACT. WHETHER IN CONFLICT WITH FEDERAL ACT. (U. S. SUP. CT.) Chapter 128 of the Wisconsin Statutes, 1929, regulates and controls voluntary assignments for the benefit of creditors and also contains provisions relating to the discharge of insolvent debtors. The question is whether as construed below the provisions of that chapter which relate to voluntary assignments for the benefit of creditors and especially a clause contained in Sec. 128.06 conflict with the National Bankruptcy Act. This clause provides that no creditor shall obtain priority over other creditors upon assignment for benefit of creditors being adjudged void. The Boyd Company, a Wisconsin corporation, March 23, 1931, made a voluntary assignment of all its property to assignees for the benefit of its creditors. Appellant, a non-assenting creditor, instituted garnishment proceedings against the assignees, asserting that the assignment was void because of failure to comply with c. 128 in several particulars and because that chapter was repugnant to the Bankruptcy Act. The circuit court found that the assignees had received property belonging to the assignor in excess of appellant's judgment and had transferred the same to the trustee, and ordered that it be applied to satisfy the judgment. The supreme court reversed and directed that the garnishee action be dismissed. It declared that the provisions in c. 128 that apply to such voluntary assignments are severable from those that relate to the discharge of insolvent debtors. It reiterated that the Federal Act superseded the latter. And it held that, as there was an attempt to make an assignment for the benefit of creditors, Sec. 128.06 prevented garnishment, even though the assignees had failed to follow some of the procedural details prescribed by c. 128.

Held that the Wisconsin law merely governs the administration of trusts created by deeds like that in question which do not differ substantially from those arising under common law assignments for the benefit of creditors. The substantive rights under such assignments depend upon contract; the legislation merely governs the execution of the trusts on which the property is conveyed. And as proceedings under any such assignment may be terminated upon petition of creditors filed within the time and in the manner prescribed by the federal Act, it is apparent that Congress intended that such voluntary assignments, unless so put aside, should be regarded as not inconsistent with the purposes of the federal Act. It follows that Sec. 128.06 is valid and effective to prevent garnishment of funds in the hands of the trustee. Judgment affirmed. *Pobreslo v. Joseph M. Boyd Company et al.* U. S. Supreme Ct. (Wisc.) Decided January 9, 1933.

VOLUNTARY. CHATTEL MORTGAGE TO SECURE PRE-EXISTING INDEBTEDNESS. WHEN NOT VOID AS TO CREDITORS. NEW YORK LIEN LAW, SECTION 230-A. (N. Y.) The bankrupt operated a garage. He owed $1,300 to the National Bank of Haverstraw. To secure this pre-existing indebtedness he executed and delivered a chattel mortgage covering certain specified machinery and equipment used in the garage. The property remained in the bankrupt's possession for the time being, but the mortgage was promptly filed in the proper public office. There was evidence tending to show that at that time the bankrupt was insolvent. A voluntary petition in bankruptcy was filed some nine months later. The receiver commenced this proceeding to have the chattel mortgage declared void. The referee came to the conclusion that the mortgage was not given in good faith for fair consideration and that it was void as to creditors.

Held that the referee was in error. The mortgage was not a fraudulent conveyance. All that we have here is the giving of collateral security in support of a pre-existing debt at a time when the debtor was insolvent, more than four months before his bankruptcy. At common law a pre-existing indebtedness is sufficient consideration to uphold either a conveyance or mortgage, and a mortgage given to secure an antecedent obligation is not fraudulent as to creditors even though the mortgagor be insolvent at the time. The same is true under the present New York statutes. Under the Debtor and Creditor Law, dealing with fraudulent conveyances, it is expressly declared (Section 272) that fair consideration is given for property when it is received "in good faith to secure a present advance or antecedent debt in amount not disproportionately small as compared with the value of the property or obligation obtained". There is nothing to indicate that the bank was not acting in entire good faith in the transaction. Its only purpose was to obtain security for a debt owed to it, a purpose by no means fraudulent. The most that can be said in disparagement of the mortgage is that it was an attempt by an insolvent debtor to prefer the bank over his other creditors. Since it preceded bankruptcy by more than four months, however, it is not open to attach as a voidable preference. Bankruptcy Act, sec. 60; 11 U. S. C. A., sec. 96. It is equally plain that the chattel mortgage was not invalidated by section 230-a of the Lien Law. That section refers to a mortgage upon "a stock of merchandise", or upon "merchandise and fixtures pertaining to the business of the mortgagor". Here the mortgage covered only enumerated tools and equipment in a garage. Articles of this kind cannot fairly be classified as "a stock of merchandise" or as "merchandise and fixtures". Order granted, reversing referee's order and declaring the mortgage valid. *Matter of Handerson.* U. S. Dist. Ct., So. Dist. of N. Y. Decided January 9, 1933.

Reserves— with reservations

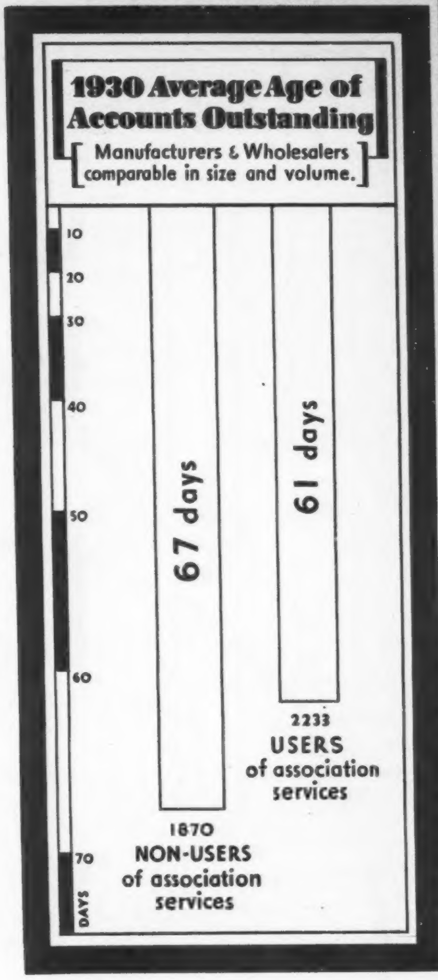
(*Cont. from p.* 44) to a "Reserve for Expansion", and that amount is thereupon deducted from surplus and added to the "Reserve". Surplus thus becomes zero, and no dividends are legally possible.

It must be obvious to any experienced person that this is a wholly academic sort of monkey-shine, and that there is little practical relation between the legal and actual basis for dividends. I do not know of any successful company which feels under any obligation to make such reserve appropriations as alibis for failure to distribute the entire amount of their surplus in dividends. Dividends, except the preferred dividends of struggling corporations, are decided upon on the basis of expedience under the existing financial and business conditions of the company, not from the standpoint of maximums legally distributable. There are probably some cases in which reserve appropriations are made to combat stockholder indignation over reduced or passed dividends. There are also a few American companies which follow the English custom of "ploughing back earnings" through reserve appropriations instead of through stock dividends or by simply leaving them in free surplus. Both are, however, somewhat empty gestures, and they are undoubtedly the exception rather than the rule in this country.

The real reason for most of the surplus reserves which we actually encounter in practice suggests the reverse of the strength and conservatism supposed to be implied. They usually result from a contract with creditors—bankers or bondholders—who have required the creation of reserves to assure themselves that corporation's funds will not be used for unwise dividends. Trust indentures occasionally make such reserves mandatory, because they reduce the distributable equity called surplus and thus tend to prevent extravagant distributions which might impair the ability to retire debt.

Now all these things may somehow be interpreted, directly or indirectly, by one person or another person, as "conservatism". "Conservatism" is one of those words that means all things to all persons, and over which most of them are ready to fight. To me, reserves do not mean that. If a building is worn out, and the owner says so, his frankness would not necessarily indicate that he wasn't the flightiest youngster above ground. If a business man has seventeen damage claims being litigated against him, together with some disputed guarantees and a claim for back taxes, and his accountants estimate his liability and provide a "reserve" for them in his balance sheet, he seems to qualify for the adjective "conservative" very imperfectly. And, finally, dividend-inhibiting reserves, voluntarily established, might indicate conservatism in dividend policy—but an equal conservatism is possible, is much commoner, and may even be preferable, without them.

6 days is a l-o-n-g time out of circulation



Six days is not long as the clock flies but it is a l-o-n-g time to wait for your money. Multiply that six day period by the number of accounts on your books and multiply that total by your yearly turnover of realized receivables and you have a surprising addition to your working capital.

The Collection Bureaus bring in your slow accounts more quickly. The Adjustment Bureaus effect liquidations more promptly. The net result is a decrease in average age of accounts outstanding of six days for those who use association services. If you can use the surprising addition to your working capital that that six day difference returns call the nearest office of the

Collection-Adjustment Bureaus Department

NATIONAL ASSOCIATION OF CREDIT MEN

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